

FN 201 Business Finance

Midterm Exercise 1/2016

Part 1:

Question 1 (20 Points)

Balance sheets of HOMMY Inc. at the beginning and end of 2013 are presented below (in millions of dollars). The company earned \$2,000 million after tax during the year and paid cash dividends of \$200 million. The annual depreciation expense was \$1,000 million. HOMMY purchased \$2,500 million of fixed assets.

1.1 Consider any changes of key items in balance sheet below and fill in the two columns whether it is source of cash or use of cash. **(10 Points)**

	<u>Jan 1, 2013</u>	<u>Dec 31, 2013</u>	Source of Cash	Use of Cash
ASSETS				
Cash	\$ 1,200	\$ 900		
Accounts receivable	1,400	2,400		
Inventories	400	1,200		
Total current assets	<u>\$ 3,000</u>	<u>\$ 4,500</u>		
Gross fixed assets	12,000	14,500		
<i>Less: Accumulated depreciation</i>	4,500	5,500		
Net fixed assets	<u>\$ 7,500</u>	<u>\$ 9,000</u>		
Total assets	<u><u>\$10,500</u></u>	<u><u>\$13,500</u></u>		
LIABILITIES AND EQUITY				
Accounts payable	\$ 1,400	\$ 1,100		
Notes payable	1,000	1,000		
Long-term debt	1,000	2,500		
Common stock	3,000	3,000		
Retained earnings	4,100	5,900		
Total liabilities and equity	<u><u>\$10,500</u></u>	<u><u>\$13,500</u></u>		

Question 1 (continued)

1.2 From information obtained above and (1.1), classify each items as an operating activity, an investing activity, or a financing activity, and summarize cash flow position in below table. **(10 Points)**

Operating activities:

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Net Cash Inflow or Outflow</i>	

Investing activities:

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Net Cash Inflow or Outflow</i>	

Financing activities:

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Net Cash Inflow or Outflow</i>	

Question 2 (30 Points)

An incomplete 2013 balance sheet for O'Keefe Industries is expressed below together with the following key financial data:

**O'Keefe Industries Balance Sheet
December 31, 2013**

ASSETS		LIABILITIES AND STOCKHOLDERS' EQUITY	
Cash	\$ 30,000	Accounts payable	\$120,000
Marketable securities	25,000	Notes payable	_____
Account receivable	_____	Accruals	20,000
Inventories	_____	Total current liabilities	_____
Total current assets	_____	Long-term debt	_____
Net fixed assets	_____	Stockholders' equity	\$600,000
Total assets	_____	Total liabilities and stockholders' equity	_____

- (1) Sales totaled \$1,800,000.
- (2) The gross profit margin was 25%.
- (3) Inventory turnover was 6.0.
- (4) There are 360 days in the year.
- (5) The average collection period was 40 days.
- (6) The current ratio was 1.60.
- (7) The total asset turnover ratio was 1.20.
- (8) The debt ratio was 60%.
- (9) O'Keefe had common stocks outstanding at 150,000 shares with market price of \$5.15.
- (10) EBIT of O'Keefe was \$200,000, which resulted in net income of \$90,000.

2.1 Complete the 2013 balance sheet for O'Keefe Industries by using provided information. **(10 Points)**

Note: Please fill your answer into the balance sheet above.

2.2 Assume the company's corporate tax was at 40% and cost of capital was 10%, calculate the following measures of shareholders' wealth and provide the meaning. **(10 Points)**

A) Market Value Added (MVA) and Market-to-Book ratio

B) Economic Value Added (EVA)

2.3 Given the preceding financial statements, complete the following table. Assume that the industry averages given in the table are applicable for both 2012 and 2013. Summarize the company's overall financial condition, comparing with its own performance and industry average. **(10 Points)**

Ratio	Industry average	Actual 2012	Actual 2013
Current ratio	1.80	1.74	1.60
Quick ratio	0.70	0.78	
Inventory turnover ^a	7.50	4.59	6.00
Average collection period ^a	30 days	38 days	40 days
Debt ratio	50%	57%	60%
Return on total assets	4.00%	5.00%	
Return on common equity	12.50%	14.75%	

^a Based on a 360-day year.

Question 3 (20 Points)

Winnie Corp. has an inventory conversion period of 60 days, an average collection period of 38 days, and an account payable period of 30 days. Winnie's annual sales are \$3,421,875 which are all on credit, and cost of goods sold is 75% of sales. Assume a 360-day year.

3.1 Calculate firm's cash conversion period and the amount of resources or minimum cash needed to support its cash conversion cycle. **(10 Points)**

3.2 Discuss the importance of the cash conversion cycle and possible management that might be able to reduce the cash conversion cycle. **(10 Points)**

Question 4 (25 Points)

Suppose that Win Hom Sofa has a line of credit with a quoted interest rate of 10 percent and a compensating balance of 25 percent. The compensating balance earns no interest.

4.1 If the company needs \$60,000, how much total loan will it need to borrow? And what is the actual interest rate from this loan? **(10 Points)**

4.2 Suppose that the bank offers two alternative loan contracts without compensating balance requirement, but the company has to accept different agreements as follows:

Plan A – Paying an annual interest rate of 12 percent quarterly

Plan B – Paying an annual interest rate of 12 percent of a discount bank loan (discount interest)

Given total loan from (4.1), calculate actual interest rate of Plan A and Plan B. **(10 Points)**

4.3 Examining the original loan contracts with Plan A and Plan B, which plan should Win Hom accept? Why? **(5 Points)**

Question 5 (25 Points)

When you were born, your dear old Uncle Winnie promised to deposit \$1,500 in a savings account for you on each and every one of your birthdays, beginning with your first. The savings account bears a 7 percent compound annual rate of interest.

5.1 Draw the saving time lines of your money. **(5 Points)**

5.2 Suppose you have just turned 20 and want all the cash. How much would you have received? **(10 Points)**

5.3 Ignore the amount from (5.2) since it turns out that dear old (forgetful) Uncle Winnie forgot making deposits on your fifth, seventh, and eleventh birthdays. How much is in the account now – on your twentieth birthday? **(10 Points)**

Part 2:

Question 1 (20 Points)

Winnie Corporation, a major producer in automobile industry, had key financial statements as the attached tables. In 2012, the company paid dividends of \$18,000. Also, it issued \$150,000 in bonds, and purchased machine, some equipment, and other fixed asset for cash. Based on information attached, please help Winnie Corporation to form the statement of cash flows by identifying cash flows from operating, investing, and financing activities.

Balance Sheet			
Assets		Dec 31, 2012	Dec 31, 2011
Cash		\$37,000	\$49,000
Accounts Receivable		\$26,000	\$36,000
Prepaid Expenses		\$6,000	\$0
Machine		\$70,000	\$0
Equipment	\$68,000		\$0
Accumulated Depreciation	<u>\$10,000</u>	\$58,000	\$0
Other fixed assets	\$200,000		\$0
Accumulated Depreciation	<u>\$11,000</u>	\$189,000	\$0
Total Assets		<u>\$386,000</u>	<u>\$85,000</u>
Liabilities and Stockholder Equity			
Accounts Payable		\$40,000	\$5,000
Bonds Payable		\$150,000	\$0
Common Stock		\$60,000	\$60,000
Retained Earnings		\$136,000	\$20,000
Total Liabilities and Stockholder Equity		<u>\$386,000</u>	<u>\$85,000</u>

*Question 1 (continued)***Income Statement as Dec 31, 2012**

Revenue		\$492,000
Operating Expenses	\$269,000	
Depreciation	<u>\$21,000</u>	<u>\$290,000</u>
Income before Income Taxes		\$202,000
Income Tax Expense		<u>\$68,000</u>
Net Income		<u>\$134,000</u>

Question 2 (30 Points)

The financial statements of Win Hom Industries for the year ended December 31, 2013, follow.

**Win Hom Industries' Income Statement
for the Year Ended December 31, 2013**

Sale revenue	160,000
Less: Cost of goods sold	<u>106,000</u>
Gross profit	54,000
Less Operating expenses	
Selling expense	16,000
General and administrative expenses	10,000
Lease expense	1,000
Depreciation expense	<u>10,000</u>
Total operating expense	<u>37,000</u>
Operating profits	17,000
Less: Interest expense	<u>6,100</u>
Net profits before taxes	10,900
Less: Taxes	<u>4,360</u>
Net profit after taxes	<u>6,540</u>

Win Hom Industries' Balance Sheet
December 31, 2013

Assets	
Cash	500
Marketable securities	1,000
Account receivable	25,000
Inventories	45,500
Total current assets	72,000
Land	26,000
Buildings and equipment	90,000
Less: Accumulated depreciation	38,000
Net fixed assets	78,000
Total assets	150,000
Liabilities and Stockholders' Equity	
Account payable	22,000
Notes payable	47,000
Total current liabilities	69,000
Long-term debt	22,950
Common stock ^a	31,500
Retained earnings	26,550
Total liabilities and stockholders' equity	150,000

^a The firm's 3,000 outstanding shares of common stocks closed 2013 at a price of \$25 per share.

Question 2 (continued)

2.1 With the company's corporate tax at 40%, calculate the following measures of shareholders' wealth and provide the meaning. (10 Points)

A) Market Value Added (MVA) and Market-to-Book ratio

B) Economic Value Added (EVA)

2.2 Use the preceding financial statements to complete the following table. Assume that the industry averages given in the table are applicable for both 2012 and 2013. (10 Points)

Ratio	Industry average	Actual 2012	Actual 2013
Current ratio	1.80	1.84	
Quick ratio	0.70	0.78	
Inventory turnover ^a	2.50	2.59	
Average collection period ^a	37 days	36 days	
Debt ratio	65%	67%	
Time interest earned ratio	3.80	4.00	
Gross profit margin	38%	40%	
Net profit margin	3.50%	3.60%	
Return on total assets	4.00%	4.00%	
Return on common equity	9.50%	8.00%	

^a Based on a 360-day year.

2.3 Summarize the company's overall financial condition, comparing with its own performance and industry average, as related to liquidity, activity, debt, and profitability. (10 Points)

Question 3 (20 Points)

Maggie Inc. turns over its inventory 6 times each year; it has an average collection period of 45 days and an average payment period of 30 days. The firm's annual operating-cycle investment is \$3 million. Assume a 360-day year.

3.1 Calculate firm's operating cycle, cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash

3.2 Discuss the importance of the cash conversion cycle and possible management that might be able to reduce the cash conversion cycle. (10 Points)

Question 4 (20 Points)

On March 1, 2012, MAMA Corporation purchased \$100,000 worth of inventory on credit with terms of 1/20, net/60. In the past, MAMA has always followed the policy of making payment 1 month (30 days) after the goods are purchased.

If MAMA were to take advantage of the discount and pay the bill on March 20 rather than on March 30, the firm would have to borrow the necessary funds for the 10 extra days. National's borrowing terms with a local bank are estimated to be at 9 percent (annual rate), with a 15 percent compensating balance for the term of the loan.

MAMA feels that it makes little sense to take out a 9 percent loan with a compensating balance of 15 percent in order to save 1 percent on its \$100,000 by paying the account 10 days earlier than it had planned.

4.1 Calculate the opportunity cost rate of foregoing cash discount if MAMA follows the traditional payment policy (payment is made on the 30th day)? (7 Points)

4.2 If MAMA rejects such traditional payment policy, what will be the true interest cost rate of borrowing the necessary funds for the 10 extra days? (8 Points)

4.3 Would it be to MAMA's advantage to take 1 percent discount by paying the bill 10 days earlier than usual? Why? (5 Points)

Question 5 (20 Points)

Tony has decided to start saving for his retirement. Beginning on his twenty-first birthday, Tony plans to invest \$2,000 each birthday into a savings investment earning a 7 percent compound annual rate of interest. He will continue this savings program for a total of 10 years and then stop making payments. But his savings will continue to compound at 7 percent for 35 more years, until Tony retires at age 65.

Jacky also plans to invest \$2,000 a year, on each birthday, at 7 percent, and will do so for a total of 35 years. However, he will not begin his contributions until his thirty-first birthday.

5.1 Draw the investment time lines of Tony's and Jacky's plans. (5 Points)

5.2 How much will Tony's and Jacky's savings programs be worth at the retirement age of 65? (10 Points)

Part 3:

Question 1 (15 Points)

Win Hom Corp. wants to identify cash change during 2013 according to the following information.

1. It allowed accounts receivable to expand by \$25 million.
2. It paid a \$30 million dividend.
3. It repaid \$25 million of short-term bank debt.
4. It earned \$60 million of net income.
5. It reduced inventory, releasing \$5 million.
6. It invested \$30 million.
7. It purchased \$25 million of marketable securities.
8. It issued \$30 million of long-term debt.
9. It set aside \$20 million as depreciation.
10. It increased its accounts payable – borrowing an additional \$25 million from its suppliers.

1.1 Complete below table to get cash change position for Win Hom in 2013. (10 Points)

Cash flows from operating activities:	
<i>Net cash flow from operating activities</i>	
Cash flows from investing activities:	
Cash flows from financing activities:	
<i>Net cash flow from financing activities</i>	
Net change in cash	

1.2 Given cash changes above, explain company's strategic operations, including operating, investing, and financing matters in 2013. (5 Points)

Question 2 (30 Points)

The key financial statements of Total Access Communication PLC. (DTAC) and Advanced Info Service PLC. (AIS) for the year ended December 31, 2013, are as follows.

BALANCE SHEET (Million Baht)	DTAC 2013	AIS 2013
Cash & Equivalent	5,472	16,831
Accounts receivable	10,351	10,264
Inventory	1,683	2,865
PP&E-net	15,120	35,922
Other fixed assets	72,428	45,490
Total assets	105,054	111,372
Accounts payable	28,190	11,718
ST debts & current portion	8,296	5,303
Long-term debt	23,164	15,355
Other long-term liabilities	4,029	5,287
Total liabilities	72,334	65,480
Paid-up capital	4,736	2,973
Share premium	23,543	22,372
Retained earnings	2,782	20,403
Shareholder's equity	32,720	45,892
Total Liab.&Shareholders' equity	105,054	111,372
INCOME STATEMENT (Million Baht)	DTAC 2013	AIS 2013
Revenue	94,369	142,783
Cost of sales and services	(65,119)	(81,141)
Gross profit	29,250	61,642
Selling, general, and administration expenses	(13,630)	(14,847)
EBIT	15,620	46,795
Interest expense	(1,270)	(1,002)
Other income/exp.	335	871
EBT	14,685	46,664
Corporate tax	(2,888)	(10,008)
After-tax net profit (loss)	11,797	36,656

2.1 In 2013, DTAC had 2,400 million shares of common stocks outstanding with market price at 105.50 Baht. Assume DTAC's effective corporate tax was at 19.67% and cost of capital was 10%, calculate the following measures of shareholders' wealth of DTAC and provide the meaning. **(10 Points)**

A) Market Value Added (MVA)

B) Economic Value Added (EVA)

2.2 Use the preceding financial statements of DTAC to compute key financial ratios by completing the following table. **(10 Points)**

Ratio	AIS	DTAC
Current ratio	1.7602	
Quick ratio	1.5919	
Inventory turnover ^a	28.3215	
Average collection period ^a	25.8787	
Debt ratio (%)	58.7940	
Time interest earned ratio	46.7016	
Gross profit margin (%)	43.1718	
Net profit margin (%)	25.6725	
Return on total assets (%)	32.9131	
Return on equity (%)	79.8745	

^a Based on a 360-day year.

2.3 Summarize overall financial condition of DTAC by comparing with AIS under each criterion. If you want to invest in either DTAC or AIS, which company should you choose? **(10 Points)**

Question 3 (25 Points)

Jackie Corp. turns over its inventory 9 times during the year, and its days sales outstanding was 36 days. Under regular payment policy, the company payables deferral period is 40 days. Jackie's daily operating cash is around \$64,000. Assume a 360-day year.

3.1 Calculate firm's cash conversion period and the amount of resources or minimum cash needed to support its cash conversion cycle. **(10 Points)**

3.2 Jackie normally buys inventory on account with credit term of 2/15, net 40. If the company decides to take cash discount, what effect will this have on the cash cycle and the minimum cash required? **(5 Points)**

3.3 Will it be better for Jackie to take 2 percent discount when short-term bank loan costs 15%? Please calculate and compare the opportunity cost rate of foregoing cash discount and the actual interest rate to make decision. **(10 Points)**

Question 4 (25 Points)

An executive of Win Hom Company Limited plans to retire at age 65 and expects to live more 10 years. He wants to receive the following annual money for living from retirement until death.

Year (after retirement)	1-5	6-7	8-10
Cash	\$10,000	\$12,000	\$15,000

As a financial planning consultant, please help this executive by answering the following questions.

4.1 Draw the financial planning time line of this executive. **(5 Points)**

4.2 Assuming an average 8% rate of return he can earn after retirement, calculate the amount he must have available at age 65 in order to receive annual money as shown in the table. **(10 Points)**

4.3 Suppose he is 55 years old now. Given the amount from (4.2), if he plans to save annually during his working period starting at the end of his 55th year, how much annuity must he invest into a savings program earning an 8% compound annual rate of interest? **(10 Points)**

Part 4:

Question 1 (20 Points)

Balance Sheet of WINNIE Inc. at the end of 2010 are presented below. It was found that during 2010, the company paid dividends of \$2,500, and paid \$46,000 in cash to acquire new fixed assets. No debt was retired during 2010.

1.1 Use the following data from Balance Sheet of Winie Inc. to identify key accounting entry whether it is source of cash or use of cash. (10 Points)

	2010	2009	Source of Cash	Use of Cash
ASSETS				
Cash	4,000	14,000		
Accounts receivable	30,000	39,500		
Inventory	37,000	34,000		
Fixed assets	316,000	270,000		
Accumulated Depreciation	(45,000)	(30,000)		
Total assets	342,000	327,500		
LIABILITIES & EQUITY				
Accounts payable	18,000	16,000		
Wages payable	4,000	7,000		
Note payable	173,000	160,000		
Capital stock	88,000	84,000		
Retained earnings	59,000	60,500		
Total Liabilities & Equity	342,000	327,500		

1.2 From information obtained in (1.1) and Income Statement below, classify each item as cash flow from operating activity, investing activity, or financing activity, and summarize cash flow position in below table. **(10 Points)**

Income Statement	2010
Sales	200,000
Cost of goods sold	(123,000)
Depreciation expense	(15,000)
Insurance expense	(11,000)
Wage Expense	(50,000)
Net Income	1,000

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Cash Flow from Operations:</i>	
Net Income	
Depreciation Expense	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash Flow from Investments:</i>	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash flow from financing activities:</i>	
<i>Net Cash Inflow or Outflow</i>	

Net Cash Flow	
Beginning Cash Balance	
Ending Cash Balance	

Question 2 (30 Points)

Win Hom Railroad, a public transportation company, would like to form a complete Balance Sheet and Income Statement for the year end 2013. However, some of the entries were missing. The only available data were financial ratios which could help the finance department to work out.

2013 INCOME STATEMENT (Unit: Million US\$)

Net sales	
Cost of goods sold	
Selling, general, and administrative expenses	10.00
Depreciation	20.00
Earnings before interest and taxes (EBIT)	
Interest expense	
Income before tax	
Tax	
Net income	

2013 BALANCE SHEET (Unit: Million US\$)

	2013
Assets	
Cash and marketable securities	
Receivables	
Inventories	
<i>Total current assets</i>	
Net property, plant, and equipment	
Total assets	

Liabilities and shareholders' equity	
Accounts payable	25
Notes payable	30
<i>Total current liabilities</i>	
Long-term debt	
Shareholders' equity	
Total liabilities and shareholders' equity	115

2.1 Complete the 2013 Balance Sheet and Income Statement for Win Hom Railroad by using the financial ratios provided. Assume a 360-day year. Fill your answer into the Balance Sheet and the Income Statement on previous page. **(10 Points)**

Ratios	2013 Win Hom Railroad
Long-term debt ratio	0.20
Times interest earned	8.00
Current ratio	1.40
Quick ratio	1.00
Cash ratio	0.20
Return on assets	21.30%
Return on equity	66.22%
Inventory turnover	5.00
Average collection period	88.00 days

Note: You may use the space below to draft your answer.

2.2 Financial Manager of Win Hom Railroad wanted to measure overall performance of the company. She wondered whether the benchmark should be BangChak Hospital, which is a company in health service industry, or its own performance of the previous year. How would you suggest? Why? **(5 Points)**

Ratios	2013 Win Hom Railroad	2013 BangChak Hospital	2012 Win Hom Railroad
Long-term debt ratio	0.20	0.40	0.30
Times interest earned	8.00	5.00	6.50
Current ratio	1.40	2.00	1.20
Quick ratio	1.00	0.90	0.85
Cash ratio	0.20	0.75	0.25
Return on assets	21.30%	25.00%	20.00%
Return on equity	66.22%	45.00%	50.00%
Inventory turnover	5.00	10.00	3.00
Average collection period	88.00 days	28.00 days	75.00 days

2.3 Summarize the company's overall performance compared with an appropriate benchmark you suggested from (2.2). **(15 Points)**

Question 3 (35 Points)

MWH Corporation purchases the inventory under the credit terms of **2/15, net 45** for the whole year. Since the company believes that it could not find advantage from taking 2 percent discount, it always takes the full 45 days to pay its bills. Thus, the average payment period is 45 days. A new member in finance department considered that there might be benefit from taking cash discount by paying on the 15th day after purchasing. However, this will require additional short-term capital. If MWH turns over its inventory 6 times each year and has an average collection period of 30 days. The company's annual operating-cycle investment is \$630 million. Assume a 360-day year.

3.1 In case that MWH takes the full 45 days to pay its bills, what is the company's cash cycle and the amount of resources needed to support the cycle? **(10 Points)**

3.2 If MWH pays its bills on the 15th date, how much is the additional short-term capital required to support the cash cycle? **(10 Points)**

3.3 Is there any cost associated with the decision of not taking cash discount? If so, what is such cost and how to calculate? **(10 Points)**

3.4 What would be the criteria to help the company making decision whether it should take benefits from cash discount? Explain. **(5 Points)**

Question 4 (35 Points)

Jammy and Tony, a 20-year-old officer, have planned for their retirement. Both will retire at age 65 and expect to live to age 75. Assume an annual compound interest rate is fixed at 8% for the whole period of investment. Please suggest them by answering the following questions.

4.1 If they want to receive \$15,000 annually from retirement until death, what will be the amount they must have available at retirement (at age 65)? Draw an investment time line and show your calculation. **(10 Points)**

4.2 For Tony, he will start saving on his thirty-first birthday until retirement. In order to have the total amount from (4.1), how much does he need to save equally each year? **(10 Points)**

4.3 Jammy plans to start an annuity saving on his twenty-first birthday for a total of 10 years and then stop making payments. However, his savings will continue to compound at 8 percent until he retires at age 65. In order to have the total amount from (4.1), how much does he need to save equally each year? **(10 Points)**

4.4 According to your answers in (4.2) and (4.3), who could have less saving each year but get the same amount of (4.1)? Explain possible reasons. **(5 Points)**

Part 5:

Question 1 (20 Points)

Win Hom Inc. wants to identify cash changes during 2014 in the statement of cash flow.

1. 1 According to the following information, identify key accounting entry whether it is source of cash or use of cash, and to which activities it belongs.

(10 Points)

No.	Entry	Value (\$)	Activities	Source of Cash	Use of Cash
1	Gain on Sale of Equipment	1,800			
2	Net Income	7,000			
3	Bond Issuance	20,000			
4	Receipt from Payback of Loan Principal	25,000			
5	Increase in Accounts Receivable	4,400			
6	Increase in Accounts Payable	14,000			
7	Dividends Paid	10,000			
8	Depreciation Expense	1,000			
9	Receipt from Sale of Old Equipment	1,400			
10	Treasury Stock Purchased	32,000			
11	Decrease in Prepaid Insurance	1,300			
12	Cash Paid to Construct New Buildings	40,000			

1.2 From information obtained in (1.1), summarize cash flow position in below table to form the statement of cash flow. **(10 Points)**

Note: For simplicity, you may write the number of entry instead of full record to save time.

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Cash Flow from Operations:</i>	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash Flow from Investments:</i>	
<i>Net Cash Inflow or Outflow</i>	

<i>Cash flow from financing activities:</i>	
<i>Net Cash Inflow or Outflow</i>	

Net Cash Flow	
Beginning Cash Balance	10,000
Ending Cash Balance	

Question 2 (25 Points)

Bualuang Securities summarized key financial statements for the year ended December 31, 2014 of the two important companies in the Energy & Utilities industry, which are BANPU Public Company Limited (BANPU) and Electricity Generating Public Company Limited (EGCO). Income Statement and Balance Sheet are reported as follows:

Income Statement

(Unit: Million Baht)	BANPU	EGCO
Revenue	102,122	17,201
Cost of sales and services	(79,272)	(10,310)
Gross profit	22,850	6,891
Operating Expenses	(14,638)	(2,956)
EBIT	8,212	3,935
Interest expense	(4,271)	(2,794)
Other income/exp.	1,443	1,853
EBT	5,384	2,994
Corporate tax	(2,260)	(792)
Profit (Loss)	3,124	2,202

Balance Sheet

(Unit: Million Baht)	BANPU	EGCO
Cash & Equivalent	13,951	8,653
Accounts receivable	10,107	3,358
Inventory	55,758	2,603
PP&E-net	43,883	55,275
Other fixed assets	153,735	90,798
Total assets	277,434	160,687
Accounts payable	1,233	791
ST debts & current portion	11,647	15,681
Long-term debt	96,802	67,735
Other long-term liabilities	38,640	2,261
Total liabilities	148,322	86,468
Paid-up capital	2,582	5,265
Share premium	5,058	8,649
Retained earning	71,472	60,305
Share holders' equity	79,112	74,219
Total Liab. & Equity	227,434	160,687

2.1 Use the preceding financial statements of EGCO to compute key financial ratios by completing the following table. **(10 Points)**

Ratio ^a	BANPU	EGCO
Current ratio	6.20	
Quick ratio	1.87	
Inventory turnover	1.42	
Average collection period	35.63	
Debt ratio	53.46%	
Time interest earned ratio	1.92	
Gross profit margin	22.38%	
Net profit margin	3.06%	
Return on total assets	1.13%	
Return on common equity	3.95%	

^a Based on a 360-day year.

2.2 Summarize overall financial performance of EGCO comparing with BANPU under each criterion. If you want to invest either in BANPU or EGCO, which company would you recommend? **(15 Points)**

Question 3 (40 Points)

Winnie Manufacturing reported sales last year of \$5,000 million with 30% gross profit margin and inventory level at \$437.50 million. The company had an average collection period of 60 days and an average payment period of 45 days. Assume a 360-day year.

3.1 Calculate the company's cash conversion cycle and the amount of resources needed to support the cash conversion cycle. **(10 Points)**

3.2 Assume that inventory of the company was transacted with the credit terms of **2/15, net 45**. If Winnie decides to take cash discount and makes payment on the 15th day after purchasing, how much is the additional short-term capital needed to support the cash cycle? **(10 Points)**

3.3 To support the additional capital from (3.2), Winnie has to borrow from Bank Z for 30 days with a quoted rate of 12% per year. By comparing the opportunity cost of foregoing a cash discount and the actual cost of bank loan, would you recommend the company to take cash discount? Why? **(10 Points)**

3.4 Why there exists a trade-off between liquidity and profitability in current asset investment policy? And under which condition should the company emphasize on liquidity or profitability? **(10 Points)**

Question 4 (35 Points)

Tony is 35 years of age and expects to work until the age of 60. He is considering to save \$8,000 every year with the Philo Life Insurance Company, starting from the end of his 35 years old. Assume the approximate rate of return is 8%.

4.1 Please draw an investment time line of Tony's investment plan. What will be the amount Tony must have available at retirement? **(10 Points)**

4.2 After careful consideration, Tony realizes that he could save \$2,000 more for 10 consecutive years in the investment plan. Assuming 8% rate of return, would you recommend Tony to save in the first 10 years or the last 10 years? Show your calculation to support the suggestion. **(15 Points)**

4.3 Tony expects to live for more 12 years after retirement. Suppose his saving plan yields 10% of return for the period after retirement. How much could Tony spend each year given the total amount at retirement from (4.1)? **(10 Points)**

Part 6:

Question 1 (20 Points)

The following financial statements are from the 2019 Annual Report of the MWH Company.

1.1 According to the following information, identify key accounting entry whether it is source of cash inflow or source of cash outflow, and by how much. (10 Points)

Balance Sheets at December 31, 2018 and 2019 (Unit: \$Million)

	2018	2019	Cash Inflow	Cash Outflow
Assets				
Cash	\$50	\$60		
Accounts receivable	500	520		
Inventory	750	770		
Current assets	\$1,300	\$1,350		
Fixed assets (net)	\$500	\$550		
Total assets	\$1,800	\$1,900		
Liabilities and equity				
Notes payable to banks	\$100	\$75		
Accounts payable	590.00	615.00		
Interest payable	10.00	20.00		
Current liabilities	\$700	\$710		
Long-term debt	300.00	350.00		
Deferred income tax	300.00	310.00		
Capital stock	400.00	400.00		
Retained earnings	100.00	130.00		
Total liabilities & equity	\$1,800	\$1,900		

1.2 The company had capital expenditures (or cash flow from investing activities) \$150 million and paid out dividends \$30 million. Given the following Income Statement, summarize cash flow position of MWH Company for the year ended 2019 in the table below. **(10 Points)**

Income Statement for Year Ended December 31, 2019 (Unit: \$Million)

Sales	1,000
Cost of goods sold	-650
Depreciation expense	-100
Sales and general expense	-100
Interest expense	-50
Income tax expense	-40
Net income	<u>60</u>

<i>Items</i>	<i>Cash inflow / outflow</i>
<i>Cash Flow from Operations:</i>	
<i>Net Cash Inflow or Outflow</i>	
<i>Cash Flow from Investments:</i>	
Capital Expenditures	-150
<i>Cash flow from financing activities:</i>	
Dividends	-30
<i>Net Cash Inflow or Outflow</i>	
Change in Cash	

Question 2 (25 Points)

Bualuang Securities summarized key financial statements for the year ended December 31, 2015 of the two key players in the Aviation industry, which are Bangkok Airways (BA) and Asia Aviation (AAV). Income Statement and Balance Sheet were reported as follows:

Income Statement

(Unit: Million Baht)	BA: 2015	AAV: 2015
Revenue	23,113	29,507
Cost of sales and services or COGS	-18,626	-25,315
Selling, general, and administrative expenses	-2,967	-2,377
EBIT	1,520	1,815
Interest Expense	-1,606	-457
Other income or expense	1,458	956
EBT	1,372	2,314
Corporate tax	-250	-151
Net profit (loss)	1,122	2,163

Balance Sheet

(Unit: Million Baht)	BA: 2015	AAV: 2015
Cash & Equivalent	4,628	6,123
Accounts receivable	1,847	439
Inventory	306	94
Net fixed assets	9,559	18,216
Other fixed assets	40,673	27,955
Total assets	57,013	52,827
Account payable	2,261	336
Short-term debt	500	1,261
Long-term debt	13,858	12,775
Other long-term liabilities	9,438	18,313
Total liabilities	26,057	32,685
Paid-up capital	2,100	485
Common stock	28,425	2,599
Retained earnings	431	17,058
Shareholders' equity	30,956	20,142
Total Shareholders' Equity & Liabilities	57,013	52,827

2.1 Use the preceding financial statements of AAV to compute key financial ratios by completing the following table. **(10 Points)**

Ratio ^a	BA: 2015	AAV: 2015
Current ratio	2.46	
Quick ratio	2.35	
Inventory turnover	60.87	
Average collection period	28.77	
Debt ratio	45.70%	
Time interest earned ratio	0.946	
Gross profit margin	19.41%	
Net profit margin	4.85%	
Return on total assets	1.97%	
Return on common equity	3.62%	

^a Based on a 360-day year.

2.2 Summarize overall financial performance of AAV comparing with BA under each criterion. If you want to invest either in AAV or BA, which company would you recommend? **(15 Points)**

Question 3 (40 Points)

Linda Manufacturing has an inventory conversion period of 60 days, an average collection period of 30 days, and an account payable period of 45 days. Linda's annual sales are \$4,860,000 which are all on credit, and the gross profit margin is 20% of sales. Assume a 360-day year.

3.1 Calculate the company's cash conversion cycle and the amount of resources needed to support the cash conversion cycle. **(10 Points)**

3.2 Assume that inventory of the company was transacted with the credit terms of **1/15, net 45**. Linda understands that if they do not take cash discount, there should be no cost associated. Is Linda's understanding correct? Why? If there is cost, how great is the percentage? **(10 Points)**

3.3 Linda would like to borrow short-term loan for 40 days and rolls over its contract throughout the year. Suppose that the bank offers Linda short-term debt with term loan of 40 days and 15% of interest rate per annum. By comparing the opportunity cost of foregoing a cash discount and the actual cost of bank loan, would you recommend the company to take cash discount? Why? **(10 Points)**

3.4 In financing policy, explain possible reason why there exists a trade-off between liquidity and profitability. Under which condition should the company emphasize on a particular aspect (i.e. liquidity or profitability)? **(10 Points)**

Question 4 (35 Points)

Tony is 38 years old and expects to retire at the age of 65. He wishes to provide saving for himself and is considering an annuity contract with the Philo Life Insurance Company. Such a contract pays him an equal-dollar amount each year that he lives after retirement. According to actuary tables, his life expectancy after retirement is 15 years, and that is the duration on which the insurance company bases its calculations regardless of how long he actually lives.

4.1 If Philo Life uses a compound annual interest rate of 5 percent in its calculations, what must be the insurance cost when Tony retires in order to provide him an annuity amount of \$15,000 per year? **(10 Points)**

4.2 If Tony wants to pay the insurance cost as an annuity payment at the end of the year for the rest of his working period, how much does he have to pay? Assume a compound annual interest rate of 5 percent. **(10 Points)**

4.3 Tony realizes that he has another possible investment plan, which is the Retirement Mutual Fund (RMF). This option yields only 3% return, but requires him to save \$7,000 each year for the rest of his working period. If he chooses this plan, how much will he have at the retirement year? Is it better than saving with Philo Life? Why? **(15 Points)**