In-class exercises

Lecture 1: Questions

1. Which form of business organization might best suit the following
    a. A consulting firm with several senior consultants and support staff.
    b. A house painting company owned and operated by a college student who hires some friends for occasional help.
    c. A manufacturing company with sales of $900 million and 5,000 employees.

2. Are the following capital budgeting or financing decisions?
    a. Intel decides to spend $500 million to develop a new microprocessor.
    b. Volkswagen decides to raise €350 million through a bank loan.
    c. ExxonMobil constructs a pipeline to bring natural gas onshore from the gulf of Mexico
    d. Novartis buys a license to produce and sell a new drug developed by a biotech company
    e. Pfizer issues new shares to acquire a small biotech company

3. Fritz and Frieda went to business school together 10 years ago. They have just been hired by a midsized corporation that wants to bring new financial managers. Fritz studied finance, with an emphasis on financial markets and institutions. Frieda majored in accounting and became a CPA 5 years ago. Who is more studied to be treasurer and who controller?

4. How does the position of limited company compare with that of a human person regarding liability for commercial debts?

5. The following items are on the agenda of a meeting of the management committee of a sports club. Indicate which of them will be particular interest to financial manager, stating in each case whether the decision to be made is concerned with financing (F) or investment (I).
    a. A proposed increase in subscriptions.
    b. Building an additional squash court.
    c. Applying to the Sports Council for a grant.
    d. Purchasing a minivan to transport teams to events.

Lecture 1: Statement of Cash Flows class exercise

Balance Sheet

ABC Firm: For years ending 31st December (USD in millions)

	2013	2014
Assets		
Cash and equivalents	107	140
Accounts receivable	270	294
Inventories	280	269
Other current assets	50	58
Total current assets	**707**	**761**
Net property, plant and equipment	814	873
Intangible assets	221	245
Total fixed assets	**1,035**	**1,118**
Total assets	**1,742**	**1,879**
Liabilities and equity		
Accounts payable	197	213
Notes payable	53	50
Accrued expenses	205	223
Total current liabilities	**455**	**486**
Deferred taxes	104	117
Long-term debts*	458	471
Total long-term liabilities	**562**	**588**
Total liabilities	**1,017**	**1,074**
Preferred stock	39	39
Common stock (USD 1 par value)	32	55
Capital surplus	327	347
Retained earnings	347	390
Less: Treasury stock	20	26
Total equity	**725**	**805**
Total liabilities and equity**	**1,742**	**1,879**

*Long –term debt rose by USD 13 million: the difference between USD 86 million new debts and USD 73 million in retirement of old debt.
**US Composite reports USD 43 million in new equity. The company issued 23 million shares at a price of USD 1.87 per share.

Income Statement

ABC Firm: For years ending 31st December (USD in millions)

	2013	2014
Total Operating revenues (Sales)	2,110	2,262
Cost of goods sold	1,610	1,655
Gross profit	**500**	**607**
Selling, general and administrative expenses	270	327
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	**230**	**280**
Depreciation expenses	85	90
Amortization	-	-
Operating profit	**145**	**190**
Other income/expense	82	29
Earnings before interest and taxes (EBIT)	**227**	**219**
Interest expense	48	49
Earnings before taxes (EBT)	**179**	**170**
Current	75	71
Deferred	14	13
Total taxes	89	84
Net income before preferred dividends	**90**	**86**
Preferred stock dividends	4	4
Net income to common equity	**86**	**82**
Common stock dividends	41	39
Per share data:		
Price per share	14.50	15.25

Accounting Statement of Cash Flows

ABC Firm: For years ending 31st December 2014 (USD in millions)

Cash Flow from operations (CFO)

Cash Flow from investing activities (CFI)

Cash Flow from financing activities (CFF)

Financial Cash Flow

Cash Flow of the Firm

Cash Flow to Investors in the Firm

Debt

Equity