

Financial Management
Proctored Final Examination
Exam Number: 081777

Part A: Answer each of the following questions. Each answer is worth 5.5 points.

1. What are three reasons to be cautious in using ratios to evaluate firm performance?
2. Identify and discuss the causes of the financial crisis that peaked in autumn of 2008. Why did it get worse?
3. What are three factors that influence interest rates for individual securities?
4. Identify and describe the two components of risk that make up a stock's total risk.
5. What's the risk premium? What's the risk-free rate typically considered to be?
6. What duties does a company treasurer typically perform?
7. Name and describe the two main methods by which informal resolutions of financial distress take place.

Part B: Answer each of the following questions. Show all calculations where necessary. Each answer is worth 20.5 points.

1. Penelope's Flower Shop, Inc., is looking to raise \$25 million to finance firm expansion. When discussing the matter with its investment bank, the firm finds out that the bankers recommend a gross proceeds price of \$35 per share, and that they'll charge an underwriter's spread of 5.6 percent of the gross price. Calculate the net proceeds price to Penelope's from the sale of stock. How many shares of stock will the company have to sell to receive the \$25 million it needs?
2. According to the Rule of 72, how many years would it take for an investment to double if it grows at an annual rate of 4 percent?
3. Consider the following financial information for Atlas Awesome Manufacturing, Inc., and Delilah Superior Manufacturing, Inc. Both companies are in the same industry and have identical operating income of \$8.4 million. Atlas finances its \$15 million in assets with \$2 million in debt (on which it pays 9 percent interest) and \$13 million in equity. Delilah finances its \$15 million in assets with \$12 million in debt (on which it pays 8 percent interest). Both companies pay 32 percent tax on their taxable income. Calculate the following:
 - " Each firm's net income
 - " The income each firm has available to pay its debtholders and stockholders (the firm's asset funders)
 - " The returns available to the asset funders on their investment in each company (the return on asset-funders' investment)

Which company offers a higher return on investment to its asset funders? Explain why this company is able to offer a higher return on investment to its asset funders.