HADM 6306 – FALL 2013
FINAL EXAM

Multiple Choice (4 points Each) – Choose the best answer for each of the following:

1. Which risk is measured by the standard deviation of profitability?
   a. Stand-alone risk,
   b. Market risk,
   c. Total risk,
   d. none of the above.

2. Which risk does not affect the <u>managers</u> of a business?
   a. Stand-alone risk,
   b. Market risk,
   c. Total risk,
   d. none of the above.

3. Which risk can be mostly avoided through diversification?
   a. Stand-alone risk,
   b. Interest rate risk,
   c. Market risk,
   d. none of the above.

4. Which risk should wise <u>investors</u> be most concerned with?
   a. Stand-alone risk,
   b. Market risk,
   c. Total risk,
   d. none of the above.

5. Which risk is measured by its beta?
   a. Stand-alone risk,
   b. Market risk,
   c. Total risk,
   d. none of the above.

6. Sensitivity analysis:
   a. Provides profitability breakeven analysis,
   b. Provides direction once a project has started,
   c. Identifies input variables that are most critical,
   d. All of the above.

7. Which of the following is a Qualitative risk assessment?
   a. Surveys,
   b. Market beta,
   c. Sensitivity analysis,
   d. Standard deviation of profitability.

8. In capital budgeting analysis of profitable projects, higher risk is most easily incorporated by
    a. Adjusting the interest rate higher,
    b. Adjusting the interest rate lower,
    c. Adjusting the cash flows higher,
    d. Adjusting the cash flows lower,
    e. None of the above.

9. The certainty equivalent method:
    a. Adjusts cash flows for risk,
    b. Uses a risk-free discount rate,
    c. Is more difficult to implement than a risk-adjusted discount rate,
    d. All of the above.

10. Which of the following is NOT true regarding capital rationing?
    a. From a financial theory perspective, for for-profit firms there is no basis for it,
    b. Safe projects are always chosen over risky projects,
    c. It refers to having limited capital for projects,
    d. The profitability index is a useful tool.

11. Which of the following is not a short-term asset?
    a. Cash,
    b. Inventory,
    c. Accounts payable,
    d. Accounts receivable.

12. Which of the following is not a way Just-in-Time inventory systems can reduce total overall costs to both the purchaser and supplier?
    a. Reduced service levels (shorter hours, closed on weekends, etc.),
    b. Shifting warehouse costs to the supplier,
    c. Economies of scale,
    d. All of the above can reduce costs.

13. When considering the Revenue cycle, which factors add to the Healthcare industry problems?
    a. Uninsured Patients,
    b. Regulatory Pressures
    c. Limited Access to Capital
    d. Inefficient Administrative Processes
    e. All of the above

14. Extended collection periods are a problem because
    a. the time value of money,
    b. third party payers will forget to pay,
    c. the HCO will loss business when the bill is finally paid,
    d. they aren't really a problem.

15. Which is not part of the Revenue Cycle?
    a. Advertising for new patients
    b. Collecting data about the patient Low current asset investment policy
    c. Capturing charges
    d. Submitting bills and claims
    e. All of the above are parts of the Revenue Cycle.
16. If the economy is in a decline, which type of current asset financing should be used?
    a. compromise financing policy,
    b. flexible financing policy,
    c. restrictive financing policy,
    d. maturity matching financing policy.

17. Which type of current asset financing policy is riskiest?
    a. compromise financing policy,
    b. flexible financing policy,
    c. restrictive financing policy,
    d. maturity matching financing policy.

18. Which type of current asset financing policy provides the lowest expected return?
    a. compromise financing policy,
    b. flexible financing policy,
    c. restrictive financing policy,
    d. maturity matching financing policy.

19. Which is not one of the three most popular ways to speed collections?
    a. Negative float,
    b. Lockbox services,
    c. Concentration banking,
    d. Electronic claims processing.

20. What is the best way to control payables disbursements
    a. lockbox services,
    b. departmentalization,
    c. concentration banking.
    d. payables centralization,

21. Using financial statements to assess the financial condition of the business is;
    a. Financial statement analysis,
    b. Operating indicator analysis,
    c. Both of the above.

22. Using comparative analysis is best for determining;
    a. How your firm performed compared to your competitors,
    b. How your firm performed compared to last year,
    c. How your competitors performed last year.

23. Using trend analysis is easiest with;
    a. How your firm performed compared to your competitors,
    b. How your firm performed compared to last year,
    c. How your competitors performed last year.

24. Inflation can distort which analysis?
    a. Comparative analysis,
    b. Trend analysis,
    c. Both of the above.

25. An investor would be most concerned with which category of ratios?
    a. Liquidity ratios,
    b. Profitability ratios,
    c. Debt management ratios,
    d. Asset management ratios.

26. A short-term creditor would be most concerned with which category of ratios?
    a. Liquidity ratios,
    b. Profitability ratios,
    c. Debt management ratios,
    d. Asset management ratios,

27. A lease that provides for both the financing and maintenance of an asset
    a. Is a Financial Lease,
    b. Is an Operating Lease,
    c. Is neither an Operating Lease or a Financial Lease
    d. Can be both an Operating Lease or a Financial Lease.

28. A lease that is a contractual obligation for the lessee
    a. Is a Financial Lease,
    b. Is an Operating Lease,
    c. Is neither an Operating Lease or a Financial Lease,
    d. Can be both an Operating Lease or a Financial Lease.

29. The cancelation of a lease would be done most likely by
    a. The lessor in a Financial Lease,
    b. The lessee in a Financial Lease,
    c. The lessor in an Operating Lease,
    d. The lessee in an Operating Lease.

30. A lease that is designed to cover the full cost of the leased asset
    a. Is a Financial Lease,
    b. Is an Operating Lease,
    c. Is neither an Operating Lease or a Financial Lease.
    d. Can be both an Operating Lease or a Financial Lease,

PROBLEMS – Solve the following. Show/Explain your work!

I. On a typical day, U.C. Stars Vision Center writes $42,000 in checks, which take five days to clear. They receive an average of $54,000 in checks from patients on a daily basis, which take three days to clear.

a. (3 Points) What is U.C.'s disbursement float?

b. (3 Points) What is U.C.'s collections float?

c. (2 Points) What is U.C.'s net float?

d. (2 Points) What does this mean for U.C.?

II. Meds R Us has just finished evaluating several projects. Their cost of capital is 10%. NPV's are calculated by the firm's current cost of capital.

Project	Cost	NPV	IRR
A	$21,000	$5,000	12%
B	$ 3,000	$ -500	8%
C	$15,000	$2,000	19%
D	$14,000	$4,000	14%
E	$17,000	$4,000	17%

A. (5 Points) With no capital rationing, and assuming the projects are of the same risk, which projects should Meds R Us accept? Why?

B. (6 Points) If Meds R Us has a Capital Budget limit of $40,000, and assuming the projects are of the same risk, which projects should they accept? Why?

C. (6 Points) Meds R Us now performs a risk assessment of the projects. They adjust for project risk by raising the calculated IRR by 3% for low risk projects, leaving the IRR the same for moderate risk projects, and lowering the calculated IRR by 3% for high risk projects. Without capital rationing, which projects should Meds R Us accept? Why?

Project	Cost	NPV	IRR	Risk Level	*ADJ IRR*
A	$21,000	$5,000	12%	High	9%
B	$ 3,000	$ -500	8%	Low	11%
C	$15,000	$2,000	19%	High	16%
D	$14,000	$4,000	14%	Mod.	14%
E	$17,000	$4,000	17%	Low	20%

D. (6 Points) Considering the risk assessment in Part C above, if Meds R Us has a Capital Budget limit of $40,000, which projects should they accept? Why?

III. Consider the following financial statements for nonprofit Dispatch & Patch Emergency Services:

Dispatch & Patch Emergency Services
Statement of Operations and Change in net Assets
Year Ended December 31, 2011

Revenue:	
Insurance Proceeds	$30,000
Co-Payments	4,500
Interest and Other Income	300
Total Revenues	$34,800
Expenses:	
Salaries and Benefits	$20,000
Depreciation	2,000
Provision for Bad Debts	1,500
Supplies	1,300
Insurance	1,000
Interest	200
Total Expenses	$26,000
Net Income	$ 8,800
Net Assets, January 1, 2010	$ 400
Net Assets, December 31, 2010	$ 9,200

Dispatch & Patch Emergency Services
Balance Sheet
December 31, 2011

Assets:	
Cash	$ 2,200
Patient Accounts Receivable	1,200
Supplies	100
Total Current Assets	$ 3,500
Net Fixed Assets	$18,400
Total Assets	$21,900
Liabilities:	
Accounts Payable	$ 2,300
Accrued Expenses	1,400
Current Long-term debt	1,000
Total Current Liabilities	$ 4,700
Long-term Debt	$ 8,000
Total Liabilities	$12,700
Net Assets (Total Equity)	$ 9,200
Total liabilities and Net Assets	$21,900

Assume the industry average ratios are:

Total margin	3.5%	Days Cash on Hand	40 days
Total Asset Turnover	2.0	Average collection period	10 days
Equity Multiplier	3.0	Debt ratio	67%
Return on Equity (ROE)	21.0%	Debt-to-Equity ratio	2.0
Return on Assets (ROA)	7.0%	Times Interest Earned	3.2
Current Ratio	1.2	Fixed Asset Turnover	6.0

A. (6 Points) Perform a Du Pont analysis on Dispatch & Patch. Comment on what the results imply.

B. (21 Points) For Dispatch & Patch, calculate the following ratios and give a one or two sentence comment on what the value of their ratio means in light of the industry average:

1. Return on Assets

2. Current Ratio

3. Days Cash on Hand

4. Average collection period

5. Debt-to-Equity ratio

6. Times Interest Earned

7. Fixed Asset Turnover