



**FACULTY OF DISTANCE EDUCATION
DEPARTMENT OF ACCOUNTING AND FINANCE**

Work sheet for Basic Financial Management

Name: _____ **ID No. :** _____

Department: _____ **Center:** _____

This is a work sheet you are expected to do by your own. It carries 25 marks. The work sheet should be completed and submitted to your center coordinator which will be sent to the Head Office of the Faculty of Distance Education for evaluation. Do not try to complete the worksheet until you have covered all the lessons and exercises in the course material.

Any questions in the course that you have not been able to understand should be stated on a separate sheet of paper and attached to this work sheet. Your tutor will clarify for you.

After completing this worksheet, be certain to write your name, Id No and Address on the first page.

In addition to this, *your Name and Id No should be written on each paper of the work sheet.*

N.B: This worksheet has 4 parts and 4pages. Good work!

PART I Choose the Best Answer among the Following Alternatives and Provide Your Answers on the Answer Sheet.

- 2

- D. The process of discounting a cash flow to be received in the future is really the reverse of compounding
4. Which of the following major inputs for the preparation of Pro Forma Financial statements can be collected from industry-wide factors?
- A. Competition
 - B. Past gross percentages
 - C. Personnel availability
 - D. Population growth
5. Which of the following assumption cannot work for percentage of sales model?
- A. Current asset accounts generally vary closely with Sales
 - B. Increase in sales is used to estimate external capital requirements
 - C. The model can be used for firms with excess capacity
 - D. The key driver of this model is the Sales Forecast

The following are extracts from the income statement of X Company:

Sales income	72,000
Cost of sales (75% variable)	60,000
Interest expense	3,000
Profit before taxes	9,000
Incomes taxes	3,000

6. What is the gross profit margin of X Company?
- A. 6%
 - B. 8.3%
 - C. 16.67%
 - D. 12.5%
7. How much is the net profit after tax?
- A. 6000
 - B. 12000
 - C. 58000
 - D. 9000
8. Which of the following is different from others?
- A. Inventory turnover

- B. Current ratio
 - C. Total Assets turnover
 - D. fixed assets turnover
9. A ratio that is used to measure whether the firm has created value for its shareholders is:
- A. Market-to Book ratio
 - B. Total assets turnover
 - C. Interest coverage ratio
 - D. Return on investments

10. Financial management is mainly concerned with
- acquisition and utilizing of firm's financial resources
 - Arrangement of funds
 - Efficient Management of every business
 - Maximization of operating profit

PART II. For the Following Statements say "True" if the Statement is correct or "False"

if the Statement is Incorrect.

- In money market funds can be borrowed for short period varying from a day to a year.
- Retained earnings are the funds that are retained out of the profits for meeting the uncertainty or future growth and expansion of business.
- If a decision made by a firm has the effect of increasing the long-term market price of the firm's stock then it is a good decision.
- Common stock holders have the right to get back the investment first when the company goes into liquidation.
- Finance is concerned with the planning, organizing, directing and controlling the financial activities of an enterprise.

PART III Work Out question:- Show your steps clearly(10Pts)

- Assume that Top Company has prepared the following Balance Sheet and Income Statement for the year ended December 31, 2005.

Balance sheet

Assets		<i>Liabilities and Stockholders' Equity</i>	
Cash	175000	As/P	140000
As/R	150000	Accrued liabilities	150000
Inventory	800000	Mortgage Ns/P	1410000
Plant Assets, Net	1500000	Common Stock	800000
		Retained earnings	125000
<i>Total</i>	<i>2625000</i>	<i>Total</i>	<i>2625000</i>

Income Statement

Sales		2500000
Costs and Expenses except depreciation	1,400,000	
Depreciation	200,000	
Total costs and expenses		1,600,000
Income before taxes		900,000
Taxes (40%)		360,000
Net Income		540,000

Additional Information

- ✓ The company plans to have dividend payout ratio of 25%
- ✓ Sales are expected to increase by 10% during next year (2006).
- ✓ All assets are affected by sales proportionately. Accounts Payable and accrued liabilities are also affected by sales.
- ✓ All expenses are directly proportional to sales
- ✓ The firm has been operating at full capacity.
- ✓ The company has no preferred stock.

Assume that additional funds needed would be financed from bond issue and common stock in 40% and 60% respectively. *Calculate and find Additional Fund Needed by showing all necessary steps clearly (4 Pts.)*

2.

Net Sales		Br
800,000		
CGS		
300,000		
Operating Expense		
200,000		

Income tax rate	
40%	
Total assets	
500,000	
Common stock (Br 100 par)	
100,000	
Preferred stock	
60,000	
Retained Earnings	
90,000	

Required: Compute the following(6 Pts.)

- Net income
- Gross Profit Margin
- Net Profit Margin
- Return on Asset
- Return on Equity
- Earnings Per Share (assume preferred dividends of 10% of their investment annually)

ANSWER SHEET

Work sheet for Basic Financial Management

Name: _____ **ID No. :** _____

Department: _____ **Center:** _____

Part I : Multiple Choices

- | | |
|----------|----------|
| 1. _____ | 6. _____ |
| 2. _____ | 7. _____ |
| 3. _____ | 8. _____ |
| 4. _____ | 9. _____ |

5. _____ 10. _____

PART II. “True” or “False”

1. _____ 4. _____
2. _____ 5. _____
3. _____

PART III : Work Out question: Separate answer sheets and attached with the work sheet.