ABIZ 1000 Final Exam Practise Questions

Note: you will not be permitted to use a calculator on the final exam, so it may be advisable for you not to use one on the practise questions.

1. Construct a balance sheet for ABM Corp., given the following accounts and amounts. Some of the amounts are missing and must be calculated. Be sure to follow the proper formatting for your balance sheet.

Accounts Payable	$ 8,000	Total Current Assets	$ 24,500
Patent	$ (missing)	Mortgage	$ (missing)
Long-term Loan	$190,000	Total Assets	$554,500
Inventory	$ 6,000	Note Payable	$ (missing)
Total Liabilities & Owners' Equity	$ (missing)	Total Liabilities	$422,000
Common Stock	$ 50,000	Retained Earnings	$ (missing)
Total Current Liabilities	$ (missing)	Total Fixed Assets	$480,000
Accounts Receivable	$ 8,000	Prepaid Expenses	$ (missing)
Accrued Expenses	$ 2,500	Buildings	$150,000
Cash	$ 10,000	Total Owners' Equity	$ (missing)
Equipment	$ (missing)	Total Long-Term Liab.	$410,000
Paid-in Capital	$ 25,000	Total Other Assets	$ (missing)
Land	$250,000		

2. Given the following ***potentially*** useful information, construct an income statement for ABM Corp. for the previous year's operations. Be sure to use the proper format for your income statement.

- ABM Corp. sold 21,275 items at $12.50 per item
- It costs ABM Corp. $8.50 in materials to construct one item for sale
- Salaries and wages amount to $15,000 each for ABM's four employees
- Insurance is $2,100 per year
- Utilities are $1,500 per year
- Interest Expense is $2,000
- ABM Corp. made loan payments totaling $20,000 during the year
- The corporate income tax rate is 25%

3. Using the balance sheet and income statement from the previous two questions, calculate the following ratios. Show all your work. (a) return on sales (b) return on equity (c) quick ratio (d) net working capital (e) debt-to-equity ratio (f) debt-to-asset ratio (g) inventory turnover ratio (h) days sales in accounts receivables ratio (i) quick ratio (j) net working capital (k) solvency ratio (l) asset turnover ratio

4. ABM Corp. is considering two possible investments. It is going to choose between them based on the analysis you provide. For the Investment A, the business would purchase a piece of equipment for $125,000. The equipment is expected to generate net cash flows of $35,000 per year for four years. The equipment would have no salvage value. Investment B would require an initial outlay of $110,000, and would result in net cash flows of $45,000 per year for three years. There would be no salvage value from the equipment.

(a) according to the Payback Period method, which investment should be chosen by the agribusiness?
(b) if the firm's discount rate is 8%, what is the NPV of each investment?
(c) which investment would you recommend for the firm? Why?
(d) suppose you were asked to find the IRR for an investment of $20,000 that provided net cash flows of $15,000 in the first year and $7,000 in the second year, with a salvage value of $1,000. How would you do this? (i.e. write out the formula)
(e) BONUS MARKS: solve for the IRR in part (d)