

FNB100 Midterm

Section _____ Last Name _____ First Name _____

1. Which of the following is a correct statement?
 - a. Inventory is not part of the current assets because they are physical in nature.
 - b. Plant, equipment, building and land are non-current assets, but not fixed assets.
 - c. Marketable securities such as stocks & bonds are current assets.
 - d. Cash is the only liquid asset.
 - e. Physical assets are financed by equity only.
2. Which of the following is an **incorrect** statement?
 - a. $\text{Revenue} - \text{Operating Income} = \text{Gross Margin}$
 - b. $\text{Revenue} = \text{Price} \times \text{Q'ty sold}$ or $\text{TR} = P \times Q$
 - c. $\text{EAT} = \text{EBT} - \text{Taxes}$
 - d. $\text{Income} - \text{Expenses} = \text{Operating Income}$
 - e. $\text{Revenue} - \text{CGS} = \text{Gross Profit}$
3. Expenses can be categorized by whether the cost incurred is directly related to production or not. Which of the following is correct?
 - a. If directly related, it will not change with the production level, thus called Fixed Cost.
 - b. If directly related, it will change with the production level, thus called Fixed Cost.
 - c. If not directly related, it will not change with the production level, thus called Variable Cost.
 - d. If not directly related, it will change with the production level, thus called Variable Cost.
 - e. None of the above is a correct statement.
4. Which of the following is an **incorrect** statement?
 - a. $\text{Income} - \text{Expenses} = \text{Operating Income}$
 - b. $\text{Current Assets} - \text{Current Liabilities} = \text{Net Working Capital}$
 - c. $\text{Net Profit} = \text{EBT} - \text{Taxes}$
 - d. $\text{Operating Income} - \text{Interest PMT} = \text{Gross Profit}$
 - e. $\text{Expenses} = \text{CGS} + \text{Operating Expenses}$
5. Which item of the income statement represents the taxable income of the firm?
 - a. EBIT b. Operating Income c. EBT d. CGS e. EAT
6. Which of the following is a correct interpretation of " $r = i - \pi$ "?
 - a. Nominal interest rate is real interest rate adjusted for inflation.
 - b. Real interest rate is inflation adjusted for nominal interest rate.
 - c. Inflation is real interest rate adjusted for nominal interest rate.
 - d. Negative real interest rate is possible.
 - e. Negative real interest rate is favorable to the lenders.
7. Which of the following is **not** a correct statement?
 - a. Accounts receivable represents credit sale, and thus, cannot be collected until maturity.
 - b. Accounts receivable mainly consists of promissory notes and credit sales.
 - c. Accounts receivable is part of the current assets.

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- d. Accounts payable mainly consists of purchase of inventory on credit and notes payable.
- e. Accounts payable is part of the current liabilities.
- 8. Which of the following is **not** a correct statement?
 - a. When promissory notes are factored, the full face value is not redeemed.
 - b. Accounts receivable are discounted in the same way as promissory notes.
 - c. When accounts receivable are factored, invoices are irrelevant.
 - d. Promissory notes are a type of commercial paper.
 - e. Commercial paper is a short-term corporate debt.
- 9. Which of the following is **not** a correct statement?
 - a. ST US gov't debt instrument is called Treasury bill.
 - b. LT US gov't debt instrument includes Treasury note with maturity up to 10 years and Treasury bond with maturity up to 30 years.
 - c. ST refers to maturity up to 3 years.
 - d. LT corporate debt instrument is called corporate bond.
 - e. Bond is the term for LT debt instruments in general.
- 10. Which of the following is **not** a correct statement about the bond?
 - a. Bond can be either non-interest-bearing or interest-bearing.
 - b. Non-interest-bearing bonds sell at discount upon issuance.
 - c. Price of a discount bond will go up as it approaches maturity.
 - d. There is an inverse relation between the bond price and interest rate.
 - e. Baseline interest rate for the bond market is LIBOR rate.

Show COMPLETE, THOROUGH, NEATLY-ORGANIZED & WELL-STRUCTURED ALGEBRAIC WORK for the following problems. (Use back of the page or additional sheets if necessary. *10 points each)

- 1. You are offered two jobs. One initially pays \$25,000 / year, and your salary will grow annually at 10%. The other pays \$22,000 / year, but your salary will grow at 12%. After 10 years, which job pays the higher salary? **(Answer in three separate parts: a. Job 1, b. Job 2, c. Conclusion)**

- 2. If you can save \$1,500 annually, how much will you have accumulated after 4 years if the fund earns 7 percent a year?

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