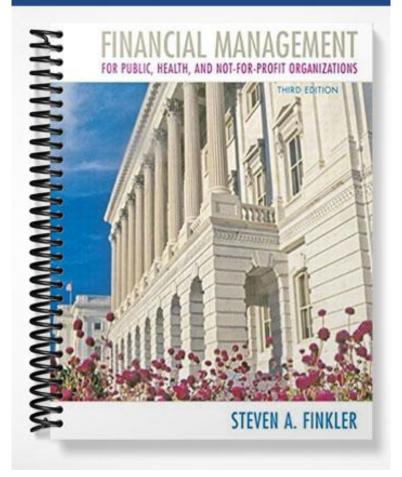
## TEST BANK



## NEW YORK UNIVERSITY ROBERT F. WAGNER GRADUATE SCHOOL OF PUBLIC SERVICE

## P11.1021: Financial Management Midterm Examination Professors Rose, Forsythe, and Calabrese Fall 2006

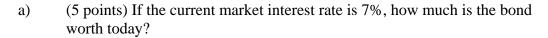
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2) Pri	nt your initials	s at the top of ea	ach page.			
3) Yo	ou may use one	page of notes.	Place all other wri	tten materials	on the floor.	
			ulculator. Rememb E). If you do not, y			
5) Lo	ok through the	entire exam be	efore you begin.			
6) Th	e points for ea	ch question are	indicated in paren	theses next to	the question.	
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1.	(2 points) In one sentence, define a budget.
2.	(2 points) Working capital management focuses on making sure that an organization has sufficient resources to operate:
	i. in accordance with its mission
	ii. over the next year
	iii. efficiently
	iv. over the expected life of the organization
3.	(10 points) The Wagner Student Association (WSA) is planning a fundraising event for the spring semester. The WSA is planning to hire the Dizzy Gillespie Heritage Band as entertainment for a fee of \$750. The Schomberg Museum was selected as the site for the event. The Museum will charge the WSA \$600 for the use of its banquet room. Sylvia's Restaurant was selected to cater the event. Sylvia's Restaurant will charge the WSA a flat fee of \$400 and an additional charge of \$20 per meal.
	a) (5 points) The WSA expects a total of 250 students and alumni to attend its spring fundraising event. What is the break-even ticket price?
	b) (5 points) The WSA is considering charging two different ticket prices: \$25 for students and \$75 for alumni. If the expected ratio of students to alumni is three to one, how many student tickets and how many alumni tickets must each be sold in order for the spring fundraising event to break even?

4. (10 points) The Port Authority of New York and New Jersey (PANYNJ) is deciding whether to purchase cranes manufactured by Paceco or Tripoli for use in its marine terminals. While the Tripoli cranes have a lower purchase price, they are more expensive to maintain annually and must be replaced sooner than the Paceco cranes. The Tripoli cranes have useful lives of 5 years, while the Paceco cranes have useful lives of 10 years. The cash flows related to each of the choices are presented below. If the PANYNJ's cost of capital is 7%, which company's cranes should the PANYNJ buy? Show your work.

Year	Paceco	Tripoli
0	(300,000)	(125,000)
1	(20,000)	(30,000)
2	(20,000)	(30,000)
3	(20,000)	(30,000)
4	(20,000)	(30,000)
5	(20,000)	(30,000)
6	(20,000)	
7	(20,000)	
8	(20,000)	
9	(20,000)	
10	(20,000)	
Total	(500,000)	(370,000)

5.	(8 points) Exactly 20 years ago, the State of New York issued a bond with a 30-
	year maturity, a 10% coupon, and a face value of \$1 million. The bond pays
	interest every six months.



b) (3 points) Show the Excel formula that would correctly solve this problem.

6. (5 points) Against the odds, you won the New York State Lottery. The jackpot was advertised as \$40 million. As the winner, you are entitled to payments of \$2 million at the beginning of each year for 20 years (\$2 million x 20 years = \$40 million). If you can earn 5% on your savings per year, how much is the lottery prize worth to you?

7.	(13 points) The Gotham City Police Department has an officer labor expense
	budget for the month of October 2006 of \$360,000. It expects to process 2,400
	criminals per month, that each criminal will take 3 hours to process, and that each
	officer will be paid \$50 per hour. During October 2006, the Gotham City police
	actually processed 3,200 criminals, logged 8,000 police hours, and incurred
	monthly labor expenses of \$448,000.

a)	(10 points) Compute the total variance, volume variance, price variance, and
	quantity variance for Gotham City's Police Department. Also indicate whether
	each variance was favorable or unfavorable

b) (3 points) Briefly explain what your variances mean, in plain language.

8. (25 points) Centers for Bright Horizons (CBH) provide day care services to low-income families. CBH bills the State for its services under a service contract. Billings for the first four months of 2007 are anticipated to be as follows:

January February March April \$220,000 \$200,000 \$240,000 \$230,000

CBH finds that it collects 25% of the amounts billed in the month of service, with the balance collected in the month following service.

CBH is planning to acquire a new building as an additional site for its services in March 2007. The full \$250,000 purchase cost of the building will be financed with a mortgage loan, with the first payment due in April 2007. CBH anticipates a February 28, 2007 cash balance of \$26,000.

CBH anticipates the following expenses and disbursements for the month of March 2007:

Personnel Payments \$170,000 Personnel Expenses \$160,000 Payments to suppliers \$45,000 Supplies Expense \$48,000 Depreciation Expense \$12,000 Interest Expense \$6,000

(20 points) Prepare an operating budget and a cash budget for CBH for the month of March 2007.



9. (8 points) City Hospital is considering establishing a childhood asthma center in the Bronx. The cost of purchasing and renovating the building is estimated at \$2 million. The projected cash flows generated by the new asthma center over the next 5 years are:

Year	Cash In	Cash Out	
1	1,200,000	800,000	
2	1,200,000	800,000	
3	1,200,000	800,000	
4	1,300,000	900,000	
5	1,300,000	1,000,000	

Assuming a 5-year useful life, zero salvage value, and an 8% cost of capital, evaluate from a financial perspective whether City Hospital should pursue this project.

10. (4points) Bills that have been sent out by an organization but not yet collected are referred to as\_\_\_\_\_\_. A(n) \_\_\_\_\_\_\_ is a report for management that indicates how long these bills have been outstanding.

- 11. (2 points) Payable are amounts owed by an organization that have not yet been paid. Name two specific payables accounts.
- 12. (8 points) As a manager, you are tasked with cutting \$100,000 from your department's budget next year. The department has \$800,000 in personnel costs for staff, \$150,000 of rent expenses, \$125,000 of general administrative expenses allocated from the executive office, and \$50,000 of miscellaneous office-supply expenses. The administrative expenses exist regardless of your department's size; if your department gives up office space, another department will take over the space and the cost.

List at least two cost-cutting measures you can adopt to save your organization (not just your department) \$100,000?

- 13. (3 points) The amount of the original cost of a capital asset allocated as an expense each year during its useful life is called:
  - i. an encumbrance
  - ii. appropriation
  - iii. depreciation
  - iv. recognition