

Question 1

Which of the following is true of maintaining appropriate inventory levels?

- A) A financial manager's general disposition toward inventory levels is to keep them low.
- B) A marketing manager would like to have low inventories of a firm's finished products.
- C) A manufacturing manager would keep raw materials inventories low for the sake of lower unit production costs.
- D) A purchasing manager prefers lower level of inventories than are actually needed at the time.

Answer: <https://biology-forums.com/index.php?topic=577415>

Question 2

Since a puttable bond gives its holder the right to "put the bond" at specified times or because of specified actions by the issuing firm, the bond's yield would be lower than that of an otherwise equivalent non-puttable bond.

Answer: <https://biology-forums.com/index.php?topic=576053>

Question 3

When a firm initiates or increases a cash discount, sales are expected to _____, the investment in accounts receivable is expected to _____, the bad debt expense is expected to _____, and the profit per unit is expected to _____.

- A) decrease; increase; increase; increase
- B) decrease; decrease; increase; increase
- C) increase; increase; decrease; decrease
- D) increase; decrease; decrease; decrease

Answer: <https://biology-forums.com/index.php?topic=577503>

Question 4

The beta of a portfolio _____.

- A) is the sum of the betas of all assets in the portfolio
- B) is the product of the betas of the individual assets in the portfolio
- C) is the median of the range of beta of the portfolio
- D) is the weighted average of the betas of the individual assets in the portfolio

Answer: <https://biology-forums.com/index.php?topic=576485>

Question 5

Using certain standardized and generally accepted principles, an accountant prepares financial statements that recognize revenue at the point of sale and expenses when incurred.

Answer: <https://biology-forums.com/index.php?topic=575290>

Question 6

The CAPM is based on an assumed efficient market in which there are many small investors, each having the same information and expectations with respect to securities; there are no restrictions on investment, no taxes, and no transactions costs; and all investors are rational, view securities similarly, and are risk-averse, preferring higher returns and lower risk.

Answer: <https://biology-forums.com/index.php?topic=576514>

Question 7

Money markets involve the trading of securities with maturities of one year or less.

Answer: <https://biology-forums.com/index.php?topic=575374>

Question 8

Which of the following is a fixed cost?

- A) inventory
- B) rent
- C) delivery costs
- D) direct labor

Answer: <https://biology-forums.com/index.php?topic=576991>

Question 9

A firm has common stock with a market price of \$25 per share and an expected dividend of \$2 per share at the end of the coming year. The growth rate in dividends has been 5 percent. The cost of the firm's common stock equity is _____.

- A) 5 percent
- B) 8 percent

C) 10 percent

D) 13 percent

Answer: <https://biology-forums.com/index.php?topic=576625>

Question 10

_____ is the potential use of fixed financial charges to magnify the effects of changes in earnings before interest and taxes on a firm's earnings per share.

A) Financial leverage

B) Operating leverage

C) Total leverage

D) Degree of operating leverage

Answer: <https://biology-forums.com/index.php?topic=577047>

Question 11

The World Trade Organization is an international body established to police world trading practices and to mediate disputes among member countries.

Answer: <https://biology-forums.com/index.php?topic=578148>

Question 12

Managing a firm's assets includes _____.

A) accruals

B) notes payable

C) cash

D) accounts payable

Answer: <https://biology-forums.com/index.php?topic=575318>

Question 13

_____ analysis is a technique used to assess the returns associated with various cost structures and levels of sales.

A) Time-series

B) Marginal

C) Breakeven

D) Ratio

Answer: <https://biology-forums.com/index.php?topic=576986>

Question 14

To achieve the goal of profit maximization for each alternative being considered, a financial manager would select the one that is expected to result in the highest return.

Answer: <https://biology-forums.com/index.php?topic=575245>

Question 15

Asymmetric information results when managers of a firm have more information about the firm's operations and future prospects than investors have.

Answer: <https://biology-forums.com/index.php?topic=577079>

Question 16

Commercial paper is _____.

A) sold at its par value

B) sold at a discount from its par value

C) sold at the prime rate

D) sold at a premium from its par value

Answer: <https://biology-forums.com/index.php?topic=577701>

Question 17

During her four years at college, Hayley received the following amounts of money at the end of each year from her grandmother. She deposited her money in a savings account paying 6 percent rate of interest. How much money will Hayley have on graduation day?

Answer: <https://biology-forums.com/index.php?topic=575843>

Question 18

When a bond's required return is greater than its coupon interest rate, the bond value will be less than its par value.

Answer: <https://biology-forums.com/index.php?topic=576115>

Question 19

In large companies, CEOs are legally responsible for coordinating the assets and liabilities of the employees' pension fund.

Answer: <https://biology-forums.com/index.php?topic=575218>

Question 20

Publicly owned corporations with more than \$5 million assets are required by the Securities and Exchange Commission (SEC) and individual state securities commissions to provide their stockholders with an annual stockholders' report.

Answer: <https://biology-forums.com/index.php?topic=575446>

Question 21

The cost of retained earnings is _____.

- A) less than the cost of debt
- B) equal to the cost of a new issue of common stock
- C) equal to the cost of common stock equity
- D) irrelevant to the investment/financing decision

Answer: <https://biology-forums.com/index.php?topic=576618>

Question 22

The yields on Treasury bills are generally higher than those on any other marketable securities due to their virtually risk-free nature.

Answer: <https://biology-forums.com/index.php?topic=577530>

Question 23

The _____ in the capital market is the basis for determining a bond's coupon interest rate.

- A) cost of money
- B) weighted average cost of capital
- C) bond's face value
- D) average coupon interest rate

Answer: <https://biology-forums.com/index.php?topic=576031>

Question 24

A firm with a cash conversion cycle of 175 days can stretch its average payment period from 30 days to 45 days. This will result in a/an _____.

- A) decrease of 30 days in the cash conversion cycle
- B) increase of 15 days in the cash conversion cycle
- C) decrease of 15 days in the cash conversion cycle
- D) increase of 30 days in the cash conversion cycle

Answer: <https://biology-forums.com/index.php?topic=577359>

Question 25

The risk of the debt capital is less than that of other long-term contributors of capital because _____.

- A) they have a lower priority of claim against any earnings or assets available for payment
- B) they have the stockholders' personal assurance for all future interest payments
- C) there is no interest rate risk as the interest rate is predetermined
- D) the tax-deductibility of interest payments lowers the debt cost to a firm substantially

Answer: <https://biology-forums.com/index.php?topic=577123>

Question 26

The ability to purchase production inputs on credit allows a firm to partially offset the length of time resources are tied up in the operating cycle.

Answer: <https://biology-forums.com/index.php?topic=577328>

Question 27

If bankruptcy were to occur, _____ would have the first claim on assets.

- A) preferred stockholders
- B) unsecured creditors
- C) equity stockholders
- D) secured creditors

Answer: <https://biology-forums.com/index.php?topic=576171>

Question 28

Tangshan China's stock is currently selling for \$160.00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. In addition, Tangshan China's most recent dividend was \$5.50. The expected risk free rate of return is 3 percent, the expected market return is 8 percent, and Tangshan has a beta of 1.20.

- (a) What is the expected return based on the dividend valuation model?
- (b) What is the required return based on the CAPM?
- (c) Would Tangshan China be a good investment at this time? Explain

Answer: <https://biology-forums.com/index.php?topic=576502>

Question 29

Capital markets are for investors who want a safe temporary place to deposit funds where they can earn interest and for borrowers who have a short-term need for funds.

Answer: <https://biology-forums.com/index.php?topic=575371>

Question 30

Nonrecourse basis is the basis on which accounts receivable once sold to a factor, the factor accepts all the credit risks on the purchased accounts.

Answer: <https://biology-forums.com/index.php?topic=577723>

Question 31

A _____ is responsible for a firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange.

- A) treasurer
- B) controller
- C) foreign exchange manager
- D) pension fund manager

Answer: <https://biology-forums.com/index.php?topic=575295>

Question 32

_____ are debt rated Ba or lower by Moody's or BB or lower by Standard & Poor's and are commonly used by rapidly growing firms to obtain growth capital, most often to finance mergers and takeovers.

- A) Subordinated debentures
- B) Mortgage bonds
- C) Junk bonds
- D) Equipment trust certificates

Answer: <https://biology-forums.com/index.php?topic=576081>

Question 33

A firm purchased raw materials on account and paid for them within 30 days. The raw materials were used in manufacturing a finished good sold on account 100 days after the raw materials were purchased. The customer paid for the finished good 60 days later. The firm's cash conversion cycle is _____ days.

- A) 10
- B) 70
- C) 130
- D) 190

Answer: <https://biology-forums.com/index.php?topic=577354>

Question 34

A combination of two or more companies that results in a firm maintaining the identity of one of the firms is _____.

- A) amalgamation
- B) consolidation
- C) merger
- D) a holding company

Answer: <https://biology-forums.com/index.php?topic=577982>

Question 35

The interest rate charged on secured short-term loans is always equal to the rate on unsecured short-term loans.

Answer: <https://biology-forums.com/index.php?topic=577716>

Question 36

If a firm's credit period is decreased, the sales volume can be expected to _____, the investment in accounts receivable can be expected to _____, and the bad debt expenses can be expected to _____.

- A) increase; decrease; decrease
- B) increase; increase; decrease
- C) increase; increase; increase
- D) decrease; decrease; decrease

Answer: <https://biology-forums.com/index.php?topic=577510>

Question 37

_____ is a treaty that has governed world trade throughout most of the post World War II era.

- A) NAFTA
- B) GATT
- C) WTO
- D) CAFTA

Answer: <https://biology-forums.com/index.php?topic=578174>

Question 38

Angel capitalists or angels are wealthy individual investors who do not operate as a business but invest in early-stage companies in exchange for a portion of equity.

Answer: <https://biology-forums.com/index.php?topic=576239>

Question 39

Mary will receive \$12,000 per year for the next 10 years as royalty for her work on a finance book. What is the present value of her royalty income if the opportunity cost is 12 percent?

- A) \$120,000
- B) \$ 67,800
- C) \$ 38,640
- D) \$ 72,560

Answer: <https://biology-forums.com/index.php?topic=575816>

Question 40

Converting a convertible security is beneficial when the market price of the common stock into which it can be converted is greater than its conversion price.

Answer: <https://biology-forums.com/index.php?topic=577834>

Question 41

A(n) _____ portfolio maximizes return for a given level of risk, or minimizes risk for a given level of return.

- A) efficient
- B) risk-free
- C) risk-neutral
- D) risk-indifferent

Answer: <https://biology-forums.com/index.php?topic=576422>

Question 42

The cost of retained earnings is generally higher than both the cost of debt and cost of preferred stock.

Answer: <https://biology-forums.com/index.php?topic=576599>

Question 43

What is the expected market return if the expected return on Asset X is 20 percent, its beta is 1.5, and the risk free rate is 5 percent?

- A) 5.0%
- B) 7.5%
- C) 15.0%
- D) 22.5%

Answer: <https://biology-forums.com/index.php?topic=576494>

Question 44

The synergy of mergers is the economies of scale resulting from the merged firm's lower overhead.

Answer: <https://biology-forums.com/index.php?topic=577965>

Question 45

The more fixed cost financing a firm has in its capital structure, the greater is its financial leverage and risk.

Answer: <https://biology-forums.com/index.php?topic=577078>

Question 46

A merger of a paper manufacturer and a logging company is an example of _____.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578013>

Question 47

A firm has an average age of inventory of 90 days, an average collection period of 40 days, and an average payment period of 30 days. The firm's operating cycle is _____ days.

- A) 110
- B) 130
- C) 120
- D) 70

Answer: <https://biology-forums.com/index.php?topic=577349>

Question 48

Comparison of the degree of operating leverage of two firms is valid only when the base level of sales used for each firm is the same.

Answer: <https://biology-forums.com/index.php?topic=577015>

Question 49

If a corporation sells certain capital equipment for more than its initial purchase price, the difference between the sale price and the purchase price is called a(n) _____.

- A) ordinary gain
- B) revenue gain
- C) capital gain
- D) abnormal gain

Answer: <https://biology-forums.com/index.php?topic=575428>

Question 50

The risk of an asset can be measured by its variance, which is found by subtracting the worst outcome from the best outcome.

Answer: <https://biology-forums.com/index.php?topic=576384>

Question 51

Pledges of accounts receivable are normally made on a nonnotification basis, meaning that a customer whose account has been pledged as collateral is not notified.

Answer: <https://biology-forums.com/index.php?topic=577721>

Question 52

Nicole holds three stocks in her portfolio: A, B, and C. The portfolio beta is 1.40. Stock A comprises 15 percent of the dollar value of her holdings and has a beta of 1.0. If Nicole sells all of her investment in A and invests the proceeds in the risk-free asset, her new portfolio beta will be _____.

- A) 0.60
- B) 0.88
- C) 1.00
- D) 1.25

Answer: <https://biology-forums.com/index.php?topic=576490>

Question 53

The _____ is an inventory technique that takes into account various operating and financial costs to determine the order quantity for a specific inventory item.

- A) JIT system
- B) ABC system

C) EOQ model

D) LIFO model

Answer: <https://biology-forums.com/index.php?topic=577423>

Question 54

A _____ is achieved by acquiring a company in the same general industry, but neither in the same line of business nor a supplier or a customer.

A) congeneric merger

B) conglomerate merger

C) horizontal merger

D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578011>

Question 55

The U.S. approaches used in hostile takeovers is an effective method of changing corporate control and used in many areas of the world including China and Japan.

Answer: <https://biology-forums.com/index.php?topic=578097>

Question 56

The _____ is the firm's desired optimal mix of debt and equity financing.

A) book value

B) market value

C) cost of capital

D) target capital structure

Answer: <https://biology-forums.com/index.php?topic=576551>

Question 57

Most federal agency issues have short maturities and offer slightly higher yields than U.S. Treasury issues having similar maturities.

Answer: <https://biology-forums.com/index.php?topic=577535>

Question 58

Mortgage-backed securities are securities that represent claims on the cash flows generated by a pool of mortgages.

Answer: <https://biology-forums.com/index.php?topic=575400>

Question 59

Harry Mining, a U.S.-based MNC has a foreign subsidiary that earns \$1,050,000 before local taxes, with all the after tax funds to be available to the parent in the form of dividends. The foreign income tax rate is 30 percent, the foreign dividend withholding tax rate is 15 percent, and the firm's U.S. tax rate is 35 percent. What are the funds available to the parent MNC if foreign taxes can be applied as a credit against the MNC's U.S. tax liability?

A) \$624,750

B) \$425,250

C) \$257,250

D) \$735,000

Answer: <https://biology-forums.com/index.php?topic=578184>

Question 60

Assuming that a firm has done all it can to stimulate customers to pay promptly and to select vendors offering the most attractive and flexible credit terms, it can further speed collections and slow disbursements by taking advantage of the "float" existing in the collection and payment systems.

Answer: <https://biology-forums.com/index.php?topic=577512>

Question 61

A corporation has concluded that its financial risk premium is too high. In order to decrease this, the firm can _____.

A) increase the proportion of long-term debt to decrease the cost of capital

B) increase the proportion of short-term debt to decrease the cost of capital

C) decrease the proportion of common stock equity to decrease financial risk

D) increase the proportion of common stock equity to decrease financial risk

Answer: <https://biology-forums.com/index.php?topic=576619>

Question 62

The inflation risk premium on a bond is 2 percent, the U.S. T-bill rate is 5 percent, the maturity risk premium on the bond is 3 percent, the default risk premium on the bond is 2 percent, and the liquidity risk premium on the bond is 1 percent. Calculate its nominal rate of return.

- A) 16%
- B) 13%
- C) 11%
- D) 9%

Answer: <https://biology-forums.com/index.php?topic=575969>

Question 63

Futures and options are opportunities that are embedded in capital budgeting projects that enable managers to alter their cash flows and risks in a way that affects project acceptability.

Answer: <https://biology-forums.com/index.php?topic=576941>

Question 64

A _____ is a short-term, unsecured promissory note issued by firms with a high credit standing. These notes are primarily issued by commercial finance companies.

- A) line of credit
- B) commercial paper
- C) revolving line of credit
- D) T-bill

Answer: <https://biology-forums.com/index.php?topic=577697>

Question 65

Which of the following is a reason for a firm to underprice new issues?

- A) When the market is in equilibrium, additional demand for shares can be achieved only at a higher price.
- B) When additional shares are issued, each share's percent of ownership in a firm is diluted, thereby justifying a higher share value.
- C) When additional shares are issued, each share's percent of ownership in a firm is concentrated, thereby justifying a lower share value.
- D) When the market is in equilibrium, additional demand for shares can be achieved only at a lower price.

Answer: <https://biology-forums.com/index.php?topic=576636>

Question 66

If a firm relaxes its credit standards, the volume of accounts receivable increases and so does the firm's carrying cost.

Answer: <https://biology-forums.com/index.php?topic=577458>

Question 67

Interest rate risk and the time to maturity have a relationship that is best characterized as _____.

- A) constant
- B) varying
- C) direct
- D) inverse

Answer: <https://biology-forums.com/index.php?topic=576137>

Question 68

One of the key attributes that makes a firm a good candidate for an LBO is that it has a solid position in the industry with reasonable expectations for future growth.

Answer: <https://biology-forums.com/index.php?topic=578023>

Question 69

Eurodollar deposits are deposits of currency that are not native to the country in which the bank is located.

Answer: <https://biology-forums.com/index.php?topic=577526>

Question 70

Which of the following is true of stakeholders?

- A) They are the owners of a firm.
- B) They are groups to whom a firm has financial obligations.
- C) They are groups having a direct economic link to a firm.
- D) They include only the bondholders, common stockholders, and preferred stockholders.

Answer: <https://biology-forums.com/index.php?topic=575275>

Question 71

Adam borrows \$4,500 at 12 percent annually compounded interest to be repaid in four equal annual installments. The actual end-of-year payment is

- _____.
- A) \$ 942
 - B) \$1,125
 - C) \$1,482
 - D) \$2,641

Answer: <https://biology-forums.com/index.php?topic=575882>

Question 72

A bond issued by an American company that is denominated in Swiss Francs and sold in Switzerland would be an example of a foreign bond.

Answer: <https://biology-forums.com/index.php?topic=576058>

Question 73

What is the IRR for the following project if its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash flows of (\$1,800,000) in year 1, \$2,900,000 in year 2, \$2,700,000 in year 3, and \$2,300,000 in year 4?

- A) 5.83%
- B) 9.67%
- C) 11.44%
- D) 6.85%

Answer: <https://biology-forums.com/index.php?topic=576772>

Question 74

In the capital asset pricing model, the general risk preferences of investors in the marketplace are reflected by _____.

- A) the risk-free rate
- B) the level of the security market line
- C) the slope of the security market line
- D) the difference between the beta and the risk-free rate

Answer: <https://biology-forums.com/index.php?topic=576525>

Question 75

Which of the following is typically a feature of preferred stocks?

- A) They are settled prior to common stocks during liquidation.
- B) They are mostly noncumulative in nature.
- C) They are paid dividends that grow at a constant rate.
- D) They carry voting rights and have maturity date.

Answer: <https://biology-forums.com/index.php?topic=576225>

Question 76

Which of the following is a basic characteristic of warrants?

- A) It improves the marketability of an issue.
- B) It is non detachable.
- C) It increases the required interest rate.
- D) It has an exercise period shorter than one month.

Answer: <https://biology-forums.com/index.php?topic=577902>

Question 77

The rate of interest agreed upon contractually charged by a lender or promised by a borrower is the _____ interest rate.

- A) effective
- B) nominal
- C) discounted
- D) continuous

Answer: <https://biology-forums.com/index.php?topic=575854>

Question 78

The market value of common stock is related to its par value because both are sensitive to the reactions of investors to new information.

Answer: <https://biology-forums.com/index.php?topic=576172>

Question 79

NICO Corporation had net current assets of \$2,000,000 at the end of 2015 and \$1,800,000 at the end of 2014. In addition, NICO had net spontaneous current liabilities of \$1,000,000 in 2015 and \$1,500,000 in 2014. Using this information, NICO's net current asset investment for 2014 was _____.

- A) \$700,000
- B) -\$300,000
- C) \$300,000
- D) -\$700,000

Answer: <https://biology-forums.com/index.php?topic=575686>

Question 80

_____ ratio indicates that a firm will be able to meet interest obligations due on outstanding debt.

- A) Debt-to-equity
- B) Interest turnover
- C) Total assets turnover
- D) Times interest earned

Answer: <https://biology-forums.com/index.php?topic=575589>

Question 81

The liquidity of a business firm is measured by its ability to satisfy its long-term obligations as they come due.

Answer: <https://biology-forums.com/index.php?topic=575546>

Question 82

A firm has an issue of \$1,000 par value bonds with a 9 percent stated interest rate outstanding. The issue pays interest annually and has 20 years remaining to its maturity date. If bonds of similar risk are currently earning 11 percent, the firm's bond will sell for _____ today.

- A) \$1,000
- B) \$716.67
- C) \$840.73
- D) \$1,123.33

Answer: <https://biology-forums.com/index.php?topic=576129>

Question 83

In a bond indenture, the term "security interest" refers to the fact that most firms that issue bonds are required to establish sinking fund provisions to protect bondholders.

Answer: <https://biology-forums.com/index.php?topic=576009>

Question 84

The purpose of the restrictive debt covenant that imposes fixed assets restrictions is to _____.

- A) protect the lender by controlling the risk and marketability of the borrower's security investment alternatives
- B) limit the amount of fixed-payment obligations
- C) ensure a cash shortage does not cause an inability to meet current obligations
- D) prevent the firm from liquidation and ensure its ability to repay the debt

Answer: <https://biology-forums.com/index.php?topic=576021>

Question 85

In valuation of common stock, the price/earnings multiple approach is considered superior to the use of book or liquidation values since it considers expected earnings.

Answer: <https://biology-forums.com/index.php?topic=576320>

Question 86

In most states, legal capital is measured either by the par value of common stock; other states, however, define legal capital to include not only the par value of the stock, but also any paid-in capital in excess of par.

Answer: <https://biology-forums.com/index.php?topic=577226>

Question 87

Less certain a cash flow, the _____ the risk, and _____ the present value of the cash flow.

- A) lower; higher
- B) lower; lower
- C) higher; lower
- D) higher; higher

Answer: <https://biology-forums.com/index.php?topic=576106>

Question 88

Total leverage can be defined as the potential use of fixed costs, both operating and financial, to magnify the effect of changes in sales on a firm's earnings per share.

Answer: <https://biology-forums.com/index.php?topic=576955>

Question 89

A corporation borrows \$1,000,000 at 10 percent annual rate of interest. The firm has a 40 percent tax rate. The yearly, after-tax cost of this debt is _____.

- A) \$40,000
- B) \$60,000
- C) \$100,000
- D) \$166,667

Answer: <https://biology-forums.com/index.php?topic=577117>

Question 90

The cost of preferred stock is the ratio of the preferred stock dividend to a firm's total earnings.

Answer: <https://biology-forums.com/index.php?topic=576587>

Question 91

A financial merger is a merger transaction undertaken to achieve economies of scale.

Answer: <https://biology-forums.com/index.php?topic=577961>

Question 92

Disadvantages of holding companies include _____.

- A) high dollar investment
- B) acquisition of significantly lesser amount of assets
- C) legal responsibility for subsidiaries
- D) double taxation

Answer: <https://biology-forums.com/index.php?topic=578109>

Question 93

If a project's payback period is less than the maximum acceptable payback period, we would accept it.

Answer: <https://biology-forums.com/index.php?topic=576707>

Question 94

A popular extension of materials requirement planning is inventory integration automation II, which integrates data from numerous areas such as finance, accounting, marketing, engineering, and manufacturing using a sophisticated computer system.

Answer: <https://biology-forums.com/index.php?topic=577412>

Question 95

Find the equal annual end-of-year payment on \$50,000, 15 year, and 10 percent loan.

Answer: <https://biology-forums.com/index.php?topic=575920>

Question 96

The NPV of a project with an initial investment of \$2,500 that provides after-tax operating cash flows of \$500 per year for four years where the firm's cost of capital is 15 percent is \$427.49.

Answer: <https://biology-forums.com/index.php?topic=576742>

Question 97

Whenever the percentage change in earnings per share (EPS) resulting from a given percentage change in sales is greater than the percentage change in sales, financial leverage exists.

Answer: <https://biology-forums.com/index.php?topic=577026>

Question 98

Risk, the magnitude and timing of cash flows are the key determinants of share price, which represent the wealth of the owners in the firm.

Answer: <https://biology-forums.com/index.php?topic=575248>

Question 99

A corporate treasurer typically handles both the cost accounting and financial accounting.

Answer: <https://biology-forums.com/index.php?topic=575287>

Question 100

A loss on the sale of an asset that is depreciable and used in business is _____; a loss on the sale of a non-depreciable asset is _____.

A) deductible from capital gains income; deductible from ordinary income
B) deductible from ordinary income; deductible only against capital gains
C) a credit against the tax liability; not deductible
D) not deductible; deductible only against capital gains

Answer: <https://biology-forums.com/index.php?topic=576866>

Question 101

A credit applicant's _____ reflects his or her record of meeting past obligations.

- A) condition
B) capacity
C) control
D) character

Answer: <https://biology-forums.com/index.php?topic=577472>

Question 102

The conversion value of a bond is the minimum price at which a convertible bond would be traded.

Answer: <https://biology-forums.com/index.php?topic=577860>

Question 103

A credit applicant's _____ is his or her financial strength as reflected by his or her ownership position.

- A) character
B) capacity
C) capital
D) collateral

Answer: <https://biology-forums.com/index.php?topic=577471>

Question 104

The four basic sources of long-term funds for a firm are _____.

- A) current liabilities, long-term debt, common stock, and preferred stock
B) current liabilities, long-term debt, common stock, and retained earnings
C) long-term debt, paid-in capital in excess of par, common stock, and retained earnings
D) long-term debt, common stock, preferred stock, and retained earnings

Answer: <https://biology-forums.com/index.php?topic=576554>

Question 105

You have been offered a project paying \$300 at the beginning of each year for the next 20 years. What is the maximum amount of money you would invest in this project if you expect 9 percent rate of return to your investment?

- A) \$ 2,738
B) \$ 2,985
C) \$15,347
D) \$ 6,000

Answer: <https://biology-forums.com/index.php?topic=575819>

Question 106

Publicly owned corporations are those which are financed by the proceeds from the treasury securities.

Answer: <https://biology-forums.com/index.php?topic=575445>

Question 107

A firm's operating breakeven point is the level of sales necessary to cover all fixed operating costs.

Answer: <https://biology-forums.com/index.php?topic=576968>

Question 108

A flat yield curve indicates generally cheaper long-term borrowing costs than short-term borrowing costs.

Answer: <https://biology-forums.com/index.php?topic=575952>

Question 109

A _____ give bondholders the right to purchase a certain number of shares of the issuer's common stock at a specified price over a certain period of time.

- A) stock purchase warrant
- B) call feature
- C) swap
- D) conversion feature

Answer: <https://biology-forums.com/index.php?topic=576065>

Question 110

One of the key attributes that makes a firm a good candidate for an LBO is that it has a relatively low level of debt and a high level of liquid assets that could be used as loan collateral.

Answer: <https://biology-forums.com/index.php?topic=578021>

Question 111

A _____ is a short-term, unsecured promissory note issued by a corporation with a very high credit standing.

- A) negotiable certificate of deposit
- B) repurchase agreement
- C) money market mutual fund
- D) commercial paper

Answer: <https://biology-forums.com/index.php?topic=577562>

Question 112

Dividends are the only means by which firms can distribute cash to shareholders.

Answer: <https://biology-forums.com/index.php?topic=577165>

Question 113

Calculate net operating profit after taxes (NOPAT) if a firm has sales of \$1,000,000, operating profit (EBIT) of \$100,000, interest expense of \$50,000, and a tax rate of 30%.

- A) \$35,000
- B) \$700,000
- C) \$70,000
- D) \$45,000

Answer: <https://biology-forums.com/index.php?topic=575683>

Question 114

Generally, increases in leverage result in increased return and risk.

Answer: <https://biology-forums.com/index.php?topic=576953>

Question 115

The purpose of a reverse stock split is to _____.

- A) issue additional shares
- B) increase the dividend
- C) increase the price of a stock
- D) decrease trading activity

Answer: <https://biology-forums.com/index.php?topic=577287>

Question 116

Bond indentures include restrictive covenants. These provisions protect the bondholders against _____.

- A) increase in inflation rate
- B) increase in borrower's risk
- C) decrease in liquidity risk
- D) maturity risk

Answer: <https://biology-forums.com/index.php?topic=576017>

Question 117

The inexpensive nature of long-term debt in a firm's capital structure is due to the fact that _____.

- A) the equity holders are the true owners of the firm

- B) equity capital has a fixed return
- C) interest payments are tax-deductible
- D) equity holders have a higher position in the priority of claims

Answer: <https://biology-forums.com/index.php?topic=577103>

Question 118

Although several economic and political factors can influence foreign exchange rate movements, by far the most important explanation for long-term changes in exchange rates is a differing inflation rate between two countries.

Answer: <https://biology-forums.com/index.php?topic=578195>

Question 119

If the P/E paid for a target company is greater than the P/E of the acquiring company, the effect on the earnings per share of the acquiring company will be _____.

- A) positive
- B) neutral
- C) negative
- D) uncorrelated

Answer: <https://biology-forums.com/index.php?topic=578075>

Question 120

The ex dividend period begins four business days prior to the payment date.

Answer: <https://biology-forums.com/index.php?topic=577173>

Question 121

In a _____ market, the buyer and seller are not brought together to trade securities directly but instead have their orders executed on the _____.

- A) dealer; securities market
- B) broker; over-the-counter market
- C) broker; securities market
- D) dealer; over-the-counter market

Answer: <https://biology-forums.com/index.php?topic=575394>

Question 122

The Bradshaw Company's most recent dividend was \$6.75. The historical dividend payment by the company shows a constant growth rate of 5 percent per year. What is the maximum you would be willing to pay for a share of its common stock if your required rate of return is 8 percent?

Answer: <https://biology-forums.com/index.php?topic=576315>

Question 123

The three major cash flow components include the initial investment, nonoperating cash flows, and terminal cash flow.

Answer: <https://biology-forums.com/index.php?topic=576814>

Question 124

A firm has a beta of 1.2. The market return equals 14 percent and the risk-free rate of return equals 6 percent. The estimated cost of common stock equity is _____.

- A) 6 percent
- B) 7.2 percent
- C) 14 percent
- D) 15.6 percent

Answer: <https://biology-forums.com/index.php?topic=576622>

Question 125

Tangshan Mining has extended credit terms of 3/15 net 30 EOM. The cost of giving up the cash discount, assuming payment would be made on the last day of the credit period, would be _____.

- A) 75.26%
- B) 3.1%
- C) 72.99%
- D) 37.12%

Answer: <https://biology-forums.com/index.php?topic=577616>

Question 126

The _____ is the compound annual rate of return that a firm will earn if it invests in the project and receives the given cash inflows.

- A) risk-free rate
- B) internal rate of return
- C) opportunity cost
- D) cost of capital

Answer: <https://biology-forums.com/index.php?topic=576799>

Question 127

Ted Corporation expects to generate free-cash flows of \$200,000 per year for the next five years. Beyond that time, free cash flows are expected to grow at a constant rate of 5 percent per year forever. If the firm's average cost of capital is 15 percent, the market value of the firm's debt is \$500,000, and Ted has a half million shares of stock outstanding, what is the value of Ted stock?

- A) \$2.43
- B) \$3.43
- C) \$1.43
- D) \$0.00

Answer: <https://biology-forums.com/index.php?topic=576324>

Question 128

Legal constraints prohibit the payment of cash dividends until a certain level of earnings has been achieved or limit the amount of dividends paid to a certain dollar amount or percentage of earnings.

Answer: <https://biology-forums.com/index.php?topic=577228>

Question 129

Countries that experience high inflation rates will see their currencies decline in value relative to the currencies of countries with lower inflation rates.

Answer: <https://biology-forums.com/index.php?topic=578193>

Question 130

A popular extension of materials requirement planning that integrates data from numerous areas such as accounting, finance, engineering, and manufacturing using a sophisticated computer system is called _____.

- A) computerized materials integration II
- B) manufacturing resource planning II
- C) inventory allocation planning II
- D) inventory integration planning II

Answer: <https://biology-forums.com/index.php?topic=577437>

Question 131

A _____ is an agreement between a commercial bank and a business that states the maximum amount of unsecured short-term borrowing the bank will make available to the firm over a given period of time, provided sufficient funds are available.

- A) revolving credit agreement
- B) line of credit
- C) commercial paper
- D) single payment note

Answer: <https://biology-forums.com/index.php?topic=577668>

Question 132

Uncorrelated assets have correlation coefficient close to zero.

Answer: <https://biology-forums.com/index.php?topic=576436>

Question 133

The availability of funds for capital expenditures does not affect a firm's capital budgeting decisions.

Answer: <https://biology-forums.com/index.php?topic=576673>

Question 134

A \$60,000 outlay for a new machine with a usable life of 15 years is an operating expenditure that would appear as a current asset on a firm's balance sheet.

Answer: <https://biology-forums.com/index.php?topic=576668>

Question 135

An annuity due is an amount that occur at the beginning of each period.

Answer: <https://biology-forums.com/index.php?topic=575795>

Question 136

A firm can retain more of its earnings if it can convince its stockholders that it will earn at least their required return on the reinvested funds.

Answer: <https://biology-forums.com/index.php?topic=576597>

Question 137

Zheng Sen wishes to accumulate \$1 million by the end of 20 years by making equal annual end-of-year deposits over the next 20 years. If Zheng Sen can earn 10 percent on his investments, how much must he deposit at the end of each year?

- A) \$ 14,900
- B) \$ 50,000
- C) \$117,453
- D) \$ 17,460

Answer: <https://biology-forums.com/index.php?topic=575897>

Question 138

Since the issuer of zero (or low) coupon bonds can annually deduct the current year's interest accrual without having to actually pay the interest until the bond matures (or is called), its cash flow each year is increased by the amount of the tax shield provided by the interest deduction.

Answer: <https://biology-forums.com/index.php?topic=576055>

Question 139

The nominal rate of interest on a bond is 7% and an inflation premium of 3%. This results in a real rate of interest of 4% on the bond.

Answer: <https://biology-forums.com/index.php?topic=575943>

Question 140

A decrease in fixed operating costs will result in _____ in the degree of financial leverage.

- A) a decrease
- B) an increase
- C) no change
- D) an undetermined change

Answer: <https://biology-forums.com/index.php?topic=577037>

Question 141

_____ is a statistical measure of the relationship between any two series of numbers.

- A) Coefficient of variation
- B) Standard deviation
- C) Correlation
- D) Probability

Answer: <https://biology-forums.com/index.php?topic=576428>

Question 142

Explain liquidity, default risk, and maturity risk premiums.

Answer: <https://biology-forums.com/index.php?topic=575997>

Question 143

The tax treatment regarding the sale of existing assets that are sold for more than the original purchase price results in _____.

- A) an ordinary tax benefit
- B) no tax benefit or liability
- C) a recaptured depreciation taxed as ordinary income
- D) a capital gain tax liability

Answer: <https://biology-forums.com/index.php?topic=576856>

Question 144

A merger transaction is not supported by the target firm's management, forcing the acquiring company to try to gain control of the firm by buying shares in the marketplace. This is an example of _____.

- A) financial merger
- B) hostile takeover
- C) congeneric formation
- D) strategic merger

Answer: <https://biology-forums.com/index.php?topic=577986>

Question 145

Jennings, Inc. has a tax liability of \$170,000 on pretax income of \$500,000. What is the average tax rate for Jennings, Inc.?

- A) 34 percent
- B) 46 percent
- C) 25 percent
- D) 40 percent

Answer: <https://biology-forums.com/index.php?topic=575426>

Question 146

The General Chemical Company uses 150,000 gallons of hydro chloric acid per month. The cost of carrying the chemical in inventory is 50 cents per gallon per year, and the cost of ordering the chemical is \$150 per order. The firm uses the chemical at a constant rate throughout the year. It takes 18 days to receive an order once it is placed. The reorder point is _____.

- A) 7,500 gallons
- B) 25,000 gallons
- C) 90,000 gallons
- D) 105,000 gallons

Answer: <https://biology-forums.com/index.php?topic=577435>

Question 147

A firm has a year-end retained earnings balance of \$220,000 for 2014. The firm reported net profits after taxes of \$50,000 and paid dividends of \$30,000 in 2015. The firm's retained earnings balance at 2015 year end is _____.

- A) \$240,000
- B) \$250,000
- C) \$270,000
- D) \$300,000

Answer: <https://biology-forums.com/index.php?topic=575498>

Question 148

A project's net present value profile is a graph that plots a project's NPV for various discount rates.

Answer: <https://biology-forums.com/index.php?topic=576773>

Question 149

RADRs are popular because they are consistent with the general disposition of financial decision makers toward rates of return.

Answer: <https://biology-forums.com/index.php?topic=576929>

Question 150

The present value of \$200 to be received 10 years from today, assuming an opportunity cost of 10 percent, is _____.

- A) \$ 50
- B) \$200
- C) \$518
- D) \$ 77

Answer: <https://biology-forums.com/index.php?topic=575784>

Question 151

Which of the following would be used in the computation of an initial investment?

- A) the annual after-tax inflow expected from the investment
- B) the initial purchase price of the investment
- C) the historic cost of the existing investment
- D) the profits from the new investment

Answer: <https://biology-forums.com/index.php?topic=576837>

Question 152

By combining two projects with negatively correlated cash inflows, a firm reduces the combined cash inflow variability and its risk.

Answer: <https://biology-forums.com/index.php?topic=576928>

Question 153

For firms that are able to raise funds through the sale of commercial paper, it is generally cheaper than borrowing from a commercial bank.

Answer: <https://biology-forums.com/index.php?topic=577691>

Question 154

When home prices are falling, we would expect a(n) _____.

- A) high mortgage default rates
- B) low mortgage default rates
- C) unchanged mortgage default rates
- D) higher percentage of owner home equity

Answer: <https://biology-forums.com/index.php?topic=575407>

Question 155

The inexpensive nature of long-term debt in a firm's capital structure is due to the fact that _____.

- A) the equity holders are the true owners of the firm
- B) equity capital has a fixed return
- C) creditors have a higher position in the priority of claims
- D) dividend payments are tax-deductible

Answer: <https://biology-forums.com/index.php?topic=577102>

Question 156

The risk of a portfolio containing international stocks generally contains less nondiversifiable risk than one that contains only domestic stocks.

Answer: <https://biology-forums.com/index.php?topic=576442>

Question 157

Federal agency issues are low-risk securities issued by government agencies but not guaranteed by the U.S. Treasury.

Answer: <https://biology-forums.com/index.php?topic=577525>

Question 158

Tryst Energy Inc. has an average age of inventory of 65 days, an average collection period of 60 days and an average payment period of 65 days. The firm's total annual outlays for operating cycle investments are \$3.65 million. Assuming a 365-day year, how much financing is required to support its cash conversion cycle?

- A) \$600,000
- B) \$650,000
- C) \$700,000
- D) \$559,000

Answer: <https://biology-forums.com/index.php?topic=577344>

Question 159

The price/earnings (P/E) ratio represents the degree of confidence that investors have in a firm's future performance.

Answer: <https://biology-forums.com/index.php?topic=575593>

Question 160

A conventional cash flow pattern associated with capital investment projects consists of an initial _____.

- A) outflow followed by a broken cash series
- B) inflow followed by a broken series of outlay
- C) outflow followed by a series of inflows
- D) outflow followed by a series of outflows

Answer: <https://biology-forums.com/index.php?topic=576701>

Question 161

If the level of bad debt attributable to credit policy is relatively constant, increasing collection expenditures can be expected to reduce bad debts.

Answer: <https://biology-forums.com/index.php?topic=577485>

Question 162

A call feature in a bond allows bondholders to change each bond into a stated number of shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=576038>

Question 163

A firm has fixed operating costs of \$253,750, a sales price per unit of \$100, and a variable cost per unit of \$65. The firm's operating breakeven point in dollars is _____.

- A) \$725,000
- B) \$700,000
- C) \$906,250
- D) \$390,385

Answer: <https://biology-forums.com/index.php?topic=577006>

Question 164

A vertical merger may result in expansion of operations in an existing product line and elimination of a competitor.

Answer: <https://biology-forums.com/index.php?topic=577973>

Question 165

At year end, Tangshan China Company balance sheet showed total assets of \$60 million, total liabilities (including preferred stock) of \$45 million, and 1,000,000 shares of common stock outstanding. If Tangshan could sell its assets for \$52.5 million, Tangshan's liquidation value per share of common stock is _____.

- A) \$15
- B) \$7.50
- C) \$52.50
- D) \$75

Answer: <https://biology-forums.com/index.php?topic=576334>

Question 166

A firm with a very low current ratio in comparison to the industry standard could lower the risk of unavailable short-term funds by moving toward _____ financing strategy.

- A) the aggressive
- B) the conservative
- C) a permanent
- D) a seasonal

Answer: <https://biology-forums.com/index.php?topic=577395>

Question 167

A firm which uses the aggressive financing strategy plans to purchase a major fixed asset financed with a loan. The most likely consequence of this action is _____.

- A) a decrease in the current ratio
- B) an increase in net working capital
- C) a decrease in the risk of insolvency
- D) an increase in long-term debt

Answer: <https://biology-forums.com/index.php?topic=577396>

Question 168

A preferred stockholder is sometimes referred to as a residual owner, since in essence he or she receives what is left—the residual—after all other claims on the firm's income and assets have been satisfied.

Answer: <https://biology-forums.com/index.php?topic=576199>

Question 169

A firm has a current capital structure consisting of \$400,000 of 12 percent annual interest debt and 50,000 shares of common stock. The firm's tax rate is 40 percent on ordinary income. If the EBIT is expected to be \$200,000, two EBIT-EPS coordinates for the firm's existing capital structure are _____.

- A) (\$36,000, \$0) and (\$200,000, \$3.04)
- B) (\$48,000, \$0) and (\$200,000, \$1.82)
- C) (\$0, \$48,000) and (\$200,000, \$1.82)
- D) (\$152,000, \$3.50) and (\$150,000, \$1.82)

Answer: <https://biology-forums.com/index.php?topic=577157>

Question 170

Which of the following is true of risk?

- A) Risk and return are inversely proportionate to each other.
- B) Higher the risk associated with a security the lower is its return.
- C) Risk is a measure of the uncertainty surrounding the return that an investment will earn.
- D) Riskier investments tend to have lower returns as compared to T-bills which are risk free.

Answer: <https://biology-forums.com/index.php?topic=576364>

Question 171

Investment banks are institutions that _____.

- A) perform all activities of commercial banks and retail banks
- B) are exempted from Securities and Exchange Commission regulations
- C) engage in trading and market making activities
- D) are only limited to capital market activities

Answer: <https://biology-forums.com/index.php?topic=575352>

Question 172

A foreign bond is a bond issued by a foreign corporation or government and is denominated in the investor's home currency and sold in the investor's home market.

Answer: <https://biology-forums.com/index.php?topic=576059>

Question 173

A call premium is the amount by which the call price exceeds the market price of the bond.

Answer: <https://biology-forums.com/index.php?topic=576032>

Question 174

In the ABC system of inventory management, the _____ method could be utilized to control C items.

- A) basic economic order quantity
- B) materials requirement planning
- C) two-bin
- D) just-in-time

Answer: <https://biology-forums.com/index.php?topic=577421>

Question 175

Which of the following type of firms are most likely to payout cash dividends?

- A) rapidly growing firms
- B) firms encouraging innovation
- C) large mature firms
- D) firms expanding their operations

Answer: <https://biology-forums.com/index.php?topic=577185>

Question 176

Holder of record are stockholders whose names are recorded on the date of record receive the declared dividend.

Answer: <https://biology-forums.com/index.php?topic=577168>

Question 177

Calculate a firm's free cash flow if it has net operating profit after taxes of \$60,000, depreciation expense of \$10,000, net fixed asset investment requirement of \$40,000, a net current asset requirement of \$30,000 and a tax rate of 30%.

- A) \$0
- B) \$30,000
- C) -\$30,000
- D) \$60,000

Answer: <https://biology-forums.com/index.php?topic=575684>

Question 178

Debt capital is less risky than equity capital because a firm is legally obligated to pay interest to bondholders but they are not legally obligated to pay dividends to preferred or common stockholders.

Answer: <https://biology-forums.com/index.php?topic=577066>

Question 179

A higher earnings per share (EPS) does not necessarily translate into a higher stock price.

Answer: <https://biology-forums.com/index.php?topic=575249>

Question 180

An investor is considering buying 500 shares of ABC Company at \$32 per share. Analysts agree that the firm's stock price may increase to \$45 per share in the next four months. As an alternative, the investor could purchase a 120-day call option at a striking price of \$30 for \$5,000. What profit would the investor realize if the stock price increased to \$42 per share?

- A) \$0
- B) \$1,000
- C) \$4,000
- D) \$6,000

Answer: <https://biology-forums.com/index.php?topic=577933>

Question 181

Because the bank guarantees the availability of funds, a commitment fee is normally charged on a simple line of credit agreement.

Answer: <https://biology-forums.com/index.php?topic=577656>

Question 182

The market premium may be defined as the amount by which the conversion value exceeds its straight value.

Answer: <https://biology-forums.com/index.php?topic=577861>

Question 183

The _____ is the length of time from the point when raw materials are purchased on account to the point when payment is made to the supplier of the goods.

- A) cash conversion cycle
- B) average payment period
- C) average age of inventory
- D) average collection period

Answer: <https://biology-forums.com/index.php?topic=577348>

Question 184

The _____ of a given outcome is its chance of occurring.

- A) dispersion
- B) standard deviation
- C) probability
- D) reliability

Answer: <https://biology-forums.com/index.php?topic=576402>

Question 185

What is the NPV for a project if its cost of capital is 0 percent and its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$1,700,000 in year 3, and \$1,300,000 in year 4?

- A) \$1,700,000
- B) \$371,764
- C) \$137,053
- D) \$6,700,000

Answer: <https://biology-forums.com/index.php?topic=576755>

Question 186

A financial manager's primary activities include making investment and financing decisions.

Answer: <https://biology-forums.com/index.php?topic=575309>

Question 187

When a bond's value differs from par, its yield to maturity will differ from its coupon interest rate.

Answer: <https://biology-forums.com/index.php?topic=576151>

Question 188

Nico bought 100 shares of Cisco Systems stock for \$30.00 per share on January 1, 2013. He received a dividend of \$2.00 per share at the end of 2013 and \$3.00 per share at the end of 2014. At the end of 2015, Nico collected a dividend of \$4.00 per share and sold his stock for \$33.00 per share. What was Nico's realized holding period return?

- A) -40%
- B) +40%
- C) -36.36%
- D) +36.36%

Answer: <https://biology-forums.com/index.php?topic=576366>

Question 189

Which of the following is a disadvantage of payback period approach?

- A) It does not examine the size of the initial outlay.
- B) It does not use net profits as a measure of return.
- C) It does not explicitly consider the time value of money.
- D) It does not take into account an unconventional cash flow pattern.

Answer: <https://biology-forums.com/index.php?topic=576732>

Question 190

Which of the following proposed projects should be accepted for the upcoming year since only \$6 million is available for the next year's capital budget. What is the total NPV of the projects that should be accepted?

- A) A, B, & F; total cost = \$5.5 million; Total NPV = \$1.57
- B) F, B, & D; total cost = \$6 million; Total NPV = \$1.72
- C) E, F, & D; total cost = \$5.5 million; Total NPV = \$1.45
- D) A, E, & F; total cost = \$5 million; Total NPV = \$1.3

Answer: <https://biology-forums.com/index.php?topic=576948>

Question 191

A firm has issued preferred stock at its \$125 per share par value. The stock will pay a \$15 annual dividend. The cost of issuing and selling the stock was \$4 per share. The cost of the preferred stock is _____.

- A) 7.2 percent
- B) 12 percent
- C) 12.4 percent
- D) 15 percent

Answer: <https://biology-forums.com/index.php?topic=576590>

Question 192

In case of international capital budgeting, long-term exchange rate risk can be minimized by financing the project, in whole or in part, in local currency.

Answer: <https://biology-forums.com/index.php?topic=576906>

Question 193

Weights that use accounting values to measure the proportion of each type of capital in a firm's financial structure are called market value weights.

Answer: <https://biology-forums.com/index.php?topic=576644>

Question 194

The basic motive for capital expenditure is to _____.

- A) expand operations
- B) replace current assets
- C) renew current assets
- D) improve leverage

Answer: <https://biology-forums.com/index.php?topic=576690>

Question 195

The probability that a firm will become bankrupt is largely dependent on its level of both business and financial risk.

Answer: <https://biology-forums.com/index.php?topic=577072>

Question 196

The money market is a financial relationship created by a number of institutions and arrangements that allows suppliers and demanders of long-term funds to make transactions.

Answer: <https://biology-forums.com/index.php?topic=575377>

Question 197

Colonial Furniture's net profits before taxes for 2015 totaled \$354,000. The company's total retained earnings were \$338,000 for 2014 year-end and

\$389,000 for 2015 year-end. Colonial is subject to a 26 percent tax rate. What was the cash dividend declared by Colonial Furniture in 2015?

Answer: <https://biology-forums.com/index.php?topic=575504>

Question 198

_____ float results from the lapse between the time when a firm deducts a payment from its checking account ledger and the time when funds are actually withdrawn from its account.

- A) Mail
- B) Processing
- C) Collection
- D) Disbursement

Answer: <https://biology-forums.com/index.php?topic=577552>

Question 199

If the expected return is above the required return on an asset, rational investors will _____.

- A) buy the asset, which will drive the price up and cause expected return to reach the level of the required return
- B) buy the asset, which will drive the price down and cause the expected return to reach the level of the required return
- C) sell the asset, which will drive the price up and cause the expected return to reach the level of the required return
- D) sell the asset, since price is expected to decrease

Answer: <https://biology-forums.com/index.php?topic=576290>

Question 200

Other factors remaining constant, an increase in the average payment period will _____.

- A) increase the average collection period
- B) decrease the operating cycle
- C) not affect the cash conversion cycle
- D) not affect the operating cycle

Answer: <https://biology-forums.com/index.php?topic=577362>

Question 201

A firm has prepared the coming year's pro forma balance sheet resulting in a plug figure in a preliminary statement—called the external financing required—of \$230,000. The firm should prepare to _____.

- A) repurchase common stock totaling \$230,000
- B) arrange for a loan of \$230,000
- C) do nothing; the balance sheet balances
- D) invest in marketable securities totaling \$230,000

Answer: <https://biology-forums.com/index.php?topic=575761>

Question 202

Since individuals are always confronted with opportunities to earn positive rates of return on their funds, the timing of cash flows does not have any significant economic consequences.

Answer: <https://biology-forums.com/index.php?topic=575770>

Question 203

The payment of a stock dividend is a shifting of funds between stockholders' equity accounts rather than an outflow of funds.

Answer: <https://biology-forums.com/index.php?topic=577267>

Question 204

Which of the following is true of common stocks?

- A) The common stock of a corporation can be either privately or publicly owned.
- B) Firms often issue common stock with no par value.
- C) Preemptive rights often result in a dilution of ownership.
- D) A firm's corporate charter indicates the rate at which dividends are paid.

Answer: <https://biology-forums.com/index.php?topic=576204>

Question 205

The conversion ratio is the ratio at which a convertible security can be exchanged for a nonconvertible security.

Answer: <https://biology-forums.com/index.php?topic=577815>

Question 206

The overriding goal for merging is to _____.

- A) develop monopoly control over the markets
- B) maximize shareholders' wealth as reflected in the acquirer's share price
- C) maximize shareholders' profit as reflected in the share price of the target firm
- D) maximize dividend payout ratio

Answer: <https://biology-forums.com/index.php?topic=578001>

Question 207

A _____ has an effect on a firm's share price similar to that of a _____.

- A) stock repurchase; stock split
- B) stock dividend; stock split
- C) cash dividend; stock dividend
- D) cash dividend; stock split

Answer: <https://biology-forums.com/index.php?topic=577284>

Question 208

You are planning to purchase the stock of Ted's Sheds Inc. and you expect it to pay a dividend of \$3 in 1 year, \$4.25 in 2 years, and \$6.00 in 3 years. You expect to sell the stock for \$100 in 3 years. If your required return for purchasing the stock is 12 percent, how much would you pay for the stock today?

- A) \$75.45
- B) \$77.24
- C) \$81.52
- D) \$85.66

Answer: <https://biology-forums.com/index.php?topic=576300>

Question 209

A shareholder receiving a stock dividend typically receives nothing of value.

Answer: <https://biology-forums.com/index.php?topic=577273>

Question 210

A treasurer is responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.

Answer: <https://biology-forums.com/index.php?topic=575232>

Question 211

In the OTC market, the ask price is the highest price offered by a dealer to purchase a given security.

Answer: <https://biology-forums.com/index.php?topic=575369>

Question 212

Common stock dividends paid to stockholders is equal to the earnings available for common stockholders divided by the number of shares of common stock outstanding.

Answer: <https://biology-forums.com/index.php?topic=575448>

Question 213

_____ involves the sale of accounts receivable.

- A) Trust receipt loan
- B) Factoring
- C) Field warehouse arrangement
- D) Pledging of accounts receivable

Answer: <https://biology-forums.com/index.php?topic=577735>

Question 214

Which of the following is true of a cash flow?

- A) Profits do not necessarily result in cash flows available to the stockholders.
- B) It is guaranteed that the board of directors will increase dividends when net cash flows increase.
- C) A firm's income statement will never show a positive profit when its cash outflows exceed its cash inflows.
- D) An increase in revenue will always result in an increase in cash flow.

Answer: <https://biology-forums.com/index.php?topic=575272>

Question 215

Nico is 30 years old and will retire at age 65. He will receive retirement benefits, but the benefits are not going to be enough to make a comfortable retirement life for him. Nico has estimated that an additional \$25,000 a year over his retirement benefits will allow him to have a satisfactory life. How much should Nico deposit today in an account paying 6 percent interest to meet his goal? Assume Nico will have 15 years of retirement.

Answer: <https://biology-forums.com/index.php?topic=575830>

Question 216

The call price of a security _____ the security's par value.

- A) is less than
- B) is equal to
- C) is greater than
- D) is less than or equal to

Answer: <https://biology-forums.com/index.php?topic=577848>

Question 217

Preferred stock is valued as if it were a _____.

- A) fixed-income obligation
- B) bond
- C) perpetuity
- D) common stock

Answer: <https://biology-forums.com/index.php?topic=576292>

Question 218

Investment A guarantees its holder \$100 return. Investment B earns \$0 or \$200 with equal chances (i.e., an average of \$100) over the same period. Both investments have equal risk.

Answer: <https://biology-forums.com/index.php?topic=576349>

Question 219

The dollar breakeven sales level can be solved for by dividing fixed costs by the dollar contribution margin.

Answer: <https://biology-forums.com/index.php?topic=576966>

Question 220

The NPV of a project with an initial investment of \$1,000 that provides after-tax operating cash flows of \$300 per year for four years where the firm's cost of capital is 15 percent is \$856.49.

Answer: <https://biology-forums.com/index.php?topic=576741>

Question 221

A _____ is responsible for evaluating and recommending proposed long-term investments.

- A) financial analyst
- B) credit manager
- C) pension fund manager
- D) capital expenditures manager

Answer: <https://biology-forums.com/index.php?topic=575227>

Question 222

The risk-adjusted discount rate (RADR) is the risk-adjustment factor that represents the percent of estimated cash inflows that investors would be satisfied to receive for certain rather than the cash inflows that are possible for each year.

Answer: <https://biology-forums.com/index.php?topic=576914>

Question 223

An operating lease is often referred as a capital lease.

Answer: <https://biology-forums.com/index.php?topic=577769>

Question 224

Commercial finance companies are lending institutions that make only unsecured loans—both short-term and long-term—to businesses.

Answer: <https://biology-forums.com/index.php?topic=577714>

Question 225

A firm has an average age of inventory of 60 days, an average collection period of 45 days, and an average payment period of 30 days. The firm's cash conversion cycle is _____ days.

- A) 15
- B) 45
- C) 75
- D) 135

Answer: <https://biology-forums.com/index.php?topic=577352>

Question 226

Which of the following is an advantage of factoring?

- A) accounts receivable immediately turned into cash
- B) addition of credit and collection departments
- C) less costly form of secured short-term loans
- D) improves current ratio

Answer: <https://biology-forums.com/index.php?topic=577742>

Question 227

Current ratio provides a firm's ability to meet its long-term obligations.

Answer: <https://biology-forums.com/index.php?topic=575547>

Question 228

_____ may indicate a firm is experiencing stockouts and lost sales.

- A) Average payment period
- B) Inventory turnover ratio
- C) Average collection period
- D) Quick

Answer: <https://biology-forums.com/index.php?topic=575565>

Question 229

Nico makes annual end-of-year payments of \$5,043.71 on a four-year loan with an interest rate of 13 percent. The original principal amount was _____.

- A) \$24,450
- B) \$15,000
- C) \$3,100
- D) \$20,175

Answer: <https://biology-forums.com/index.php?topic=575884>

Question 230

A firm has an outstanding 15-year convertible bond issue with a \$1,000 par value and a stated annual interest rate of 7 percent. The bond is convertible into 50 shares of common stock which has a current market price of \$25. A straight bond could have been sold with a 10 percent stated interest rate. The straight value of the bond is _____.

- A) \$1,328
- B) \$1,217
- C) \$972
- D) \$772

Answer: <https://biology-forums.com/index.php?topic=577873>

Question 231

The interest rate risk associated with Treasury bonds is much higher than with bills.

Answer: <https://biology-forums.com/index.php?topic=576362>

Question 232

Conflicting rankings in the case of mutually exclusive projects using NPV and IRR often result from differences in the magnitude and/or timing of cash flows.

Answer: <https://biology-forums.com/index.php?topic=576783>

Question 233

The nominal and effective rates are equivalent for annual compounding.

Answer: <https://biology-forums.com/index.php?topic=575846>

Question 234

An effective ethics program _____.

- A) can weaken corporate value
- B) has no effect on a corporation's value
- C) can enhance a corporation's value
- D) will result in high employee attrition rate

Answer: <https://biology-forums.com/index.php?topic=575280>

Question 235

Compute the depreciation values for an asset which costs \$55,000 and requires \$5,000 in installation costs using MACRS 5-year recovery period.

Answer: <https://biology-forums.com/index.php?topic=576873>

Question 236

_____ is a major South American trading bloc that includes countries that account for more than half of total Latin American GDP.

- A) The group of five
- B) Mercosur
- C) Latin and South American Free Trade Area (LASTA)
- D) The group of seven

Answer: <https://biology-forums.com/index.php?topic=578171>

Question 237

An internal rate of return greater than the cost of capital guarantees that the firm will earn at least its required return.

Answer: <https://biology-forums.com/index.php?topic=576764>

Question 238

In a corporation, the board of directors are elected by the _____.

- A) chief executive officer
- B) creditors
- C) stockholders
- D) employees

Answer: <https://biology-forums.com/index.php?topic=575337>

Question 239

The financial leverage multiplier is the ratio of a firm's total assets to common stock equity.

Answer: <https://biology-forums.com/index.php?topic=575607>

Question 240

The use of differing accounting treatments—especially relative to inventory and depreciation—can distort the results of ratio analysis, regardless of whether cross-sectional or time-series analysis is used.

Answer: <https://biology-forums.com/index.php?topic=575521>

Question 241

James plans to fund his individual retirement account, beginning today, with 20 annual deposits of \$2,000, which he will continue for the next 20 years. If he can earn an annual compound rate of 8 percent on his deposits, the amount in the account upon retirement will be _____.

- A) \$19,636
- B) \$91,524
- C) \$98,846
- D) \$21,207

Answer: <https://biology-forums.com/index.php?topic=575818>

Question 242

Accruals and accounts payable are _____.

- A) negotiated and secured sources of long-term financing
- B) negotiated and unsecured sources of short-term financing
- C) secured sources of short-term financing
- D) spontaneous and unsecured sources of short-term financing

Answer: <https://biology-forums.com/index.php?topic=577599>

Question 243

Generally, the order of cost, from the least expensive to the most expensive, for long-term capital of a corporation is _____.

- A) new common stock, retained earnings, preferred stock, long-term debt
- B) common stock, preferred stock, long-term debt, short-term debt
- C) preferred stock, new common stocks, common stock, retained earnings
- D) long-term debt, preferred stock, retained earnings, new common stock

Answer: <https://biology-forums.com/index.php?topic=576559>

Question 244

The primary purpose of a stock split is to _____.

- A) issue additional shares
- B) increase the dividend
- C) reduce the price of a stock
- D) reduce trading activity

Answer: <https://biology-forums.com/index.php?topic=577288>

Question 245

The present value of \$1,000 received at the end of year 1, \$1,200 received at the end of year 2, and \$1,300 received at the end of year 3, assuming an opportunity cost of 7 percent, is _____.

- A) \$2,500
- B) \$3,044
- C) \$6,516
- D) \$2,856

Answer: <https://biology-forums.com/index.php?topic=575837>

Question 246

Systematic risk is that portion of an asset's risk that is attributable to firm-specific, random causes.

Answer: <https://biology-forums.com/index.php?topic=576458>

Question 247

Jia's Apple Farm uses 12,600 baskets a year for apple shipment. Determine the optimum order quantity of baskets assuming the order costs per order is \$600 and it costs \$2 to carry a unit of basket in inventory per period.

Answer: <https://biology-forums.com/index.php?topic=577440>

Question 248

A financial manager's investment decisions determine _____.

- A) both the mix and the type of assets found on the firm's balance sheet
- B) both the mix and the type of liabilities found on the firm's balance sheet
- C) both the mix and the type of assets and liabilities found on the firm's balance sheet
- D) both the mix and the type of short-term and long-term financing

Answer: <https://biology-forums.com/index.php?topic=575320>

Question 249

One major expense associated with issuing new shares of common stock is _____.

- A) coupon payment
- B) sunk cost
- C) overvaluation
- D) underpricing

Answer: <https://biology-forums.com/index.php?topic=576623>

Question 250

The statement of cash flows _____.

- A) shows the financial position of a firm at a given point of time.
- B) summarizes all the purchase and sale of fixed assets and raw materials
- C) provides insight into a firm's operating, investment, and financing cash flows
- D) classifies a firm's cash flows as operating, investing, financing, and other activities

Answer: <https://biology-forums.com/index.php?topic=575487>

Question 251

_____ risk represents the portion of an asset's risk that can be eliminated by combining assets with less than perfect positive correlation.

- A) Diversifiable
- B) Market
- C) Systematic
- D) Economic

Answer: <https://biology-forums.com/index.php?topic=576471>

Question 252

Which of the following is true of a repurchase agreement?

- A) It results from a bank guarantee of a business transaction; sold at discount from maturity value.
- B) It provides a return slightly below that obtainable through outright purchase of similar marketable securities.
- C) It is issued by professional portfolio management companies.
- D) Its maturity period lies between 1 to 10 years.

Answer: <https://biology-forums.com/index.php?topic=577570>

Question 253

All dividend income received by a corporation is exempted from taxation.

Answer: <https://biology-forums.com/index.php?topic=575418>

Question 254

A straight bond value is the _____.

- A) minimum price at which a convertible bond would be traded
- B) optimum price at which a callable bond would be traded
- C) maximum price at which a callable bond would be traded
- D) average price at which a convertible bond would be traded

Answer: <https://biology-forums.com/index.php?topic=577865>

Question 255

Financial leverage measures the effect of fixed financial costs on the relationship between _____.

- A) sales and EBIT
- B) sales and EPS
- C) EBIT and EPS
- D) EBIT and preference dividend

Answer: <https://biology-forums.com/index.php?topic=577043>

Question 256

A U.S. parent company's foreign retained earnings are not adjusted for currency movements to reflect each year's operating profits or losses.

Answer: <https://biology-forums.com/index.php?topic=575462>

Question 257

P/E ratio measures the _____.

- A) market value of the stock to earnings per share
- B) intrinsic value of the stock to earnings per share
- C) book value of the stock to earnings per share
- D) market price of the stock to retained earnings

Answer: <https://biology-forums.com/index.php?topic=575604>

Question 258

Which of the following is true of risk aversion?

- A) Greater risk aversion results in lower required returns for each level of risk.
- B) A reduction in risk aversion causes the required return for each level of risk to increase.
- C) In general, widely shared expectations of hard times ahead tend to cause investors to become less risk averse.
- D) Changes in risk aversion, and therefore shifts in the SML, result from changing preferences of investors.

Answer: <https://biology-forums.com/index.php?topic=576518>

Question 259

All stock purchase warrants are non-detachable, which means that the bondholders must keep the warrants until they mature.

Answer: <https://biology-forums.com/index.php?topic=577894>

Question 260

On a purely theoretical basis, NPV is preferred over IRR because NPV assumes a more conservative reinvestment rate and does not exhibit the mathematical problem of multiple IRRs that often occurs when IRRs are calculated for nonconventional cash flows.

Answer: <https://biology-forums.com/index.php?topic=576792>

Question 261

Agatha Concrete Company has been offered by its bank to manage its cash at a cost of \$35,000 per year. Under the proposed cash management, the firm can reduce the cash required on hand by \$180,000. Since the bank is also doing a lot of record keeping, the firm's administrative cost would decrease by \$2,000 per month. What recommendation would you give the firm with respect to the proposed cash management assuming the firm's opportunity cost is 12 percent?

Answer: <https://biology-forums.com/index.php?topic=577581>

Question 262

The future value of an ordinary annuity of \$2,000 each year for 10 years, deposited at 12 percent, is _____.

- A) \$35,098
- B) \$20,000
- C) \$39,310
- D) \$11,300

Answer: <https://biology-forums.com/index.php?topic=575809>

Question 263

The cost of new common stock financing is higher than the cost of retained earnings due to _____.

- A) flotation costs and underpricing
- B) flotation costs and overpricing
- C) flotation costs and commission costs
- D) commission costs and overpricing

Answer: <https://biology-forums.com/index.php?topic=576634>

Question 264

Unsystematic risk _____.

- A) does not change
- B) can be eliminated through diversification
- C) cannot be estimated
- D) affects all firms in a market

Answer: <https://biology-forums.com/index.php?topic=576472>

Question 265

Accounting practices and procedures used to prepare financial statements are called _____.

- A) SEC
- B) IFRS
- C) GAAP
- D) IRB

Answer: <https://biology-forums.com/index.php?topic=575466>

Question 266

Small business investment companies (SBICs) are corporations chartered by the federal government that can borrow at attractive rates from the U.S. Treasury and use the funds to make venture capital investments in private companies.

Answer: <https://biology-forums.com/index.php?topic=576238>

Question 267

A warrant premium depends largely on investor expectations and on the ability of investors to get more leverage from the warrants than from the underlying stock.

Answer: <https://biology-forums.com/index.php?topic=577897>

Question 268

A horizontal merger is a merger in which one firm acquires another firm in the same general industry but neither in the same line of business nor a supplier or customer.

Answer: <https://biology-forums.com/index.php?topic=577975>

Question 269

An inverted yield curve is an upward-sloping yield curve that indicates generally cheaper short-term borrowing costs than long-term borrowing costs.

Answer: <https://biology-forums.com/index.php?topic=575958>

Question 270

Stock rights allow stockholders to purchase additional shares of stock in direct proportion to the number of shares they own.

Answer: <https://biology-forums.com/index.php?topic=576230>

Question 271

1/15 net 30 date of invoice translates as _____.

- A) a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due in 30 days after the middle of the month
- B) a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the invoice date
- C) a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the end of the month
- D) a 1 percent discount may be taken on 15 percent of the purchase if the account is paid within 30 days after the end of the month

Answer: <https://biology-forums.com/index.php?topic=577600>

Question 272

You have been given the opportunity to earn \$20,000 five years from now if you invest \$9,524 today. What will be the rate of return to your investment?

Answer: <https://biology-forums.com/index.php?topic=575918>

Question 273

A firm with unlimited funds must evaluate five projects. Projects 1 and 2 are independent and Projects 3, 4, and 5 are mutually exclusive. The projects are listed with their returns.

A ranking of the projects on the basis of their returns from the best to the worst according to their acceptability to the firm would be _____.

- A) 4, 1, 2 or 5, and 3
- B) 4, 1, and 2
- C) 3, 2 or 5, 1, and 4
- D) 4, 1, 5, and 3

Answer: <https://biology-forums.com/index.php?topic=576947>

Question 274

A firm has outstanding convertible preferred stock with a \$50 par value which is convertible into three shares of common stock. The conversion value is \$45. What is the current market price of a share of common stock?

- A) \$15.00
- B) \$16.67
- C) \$17.33
- D) \$20.00

Answer: <https://biology-forums.com/index.php?topic=577867>

Question 275

Which of the following must be considered when making a lease-versus-purchase decision?

- A) the before-tax cash outflows for each year under the lease alternative
- B) the before-tax cash outflows for each year under the purchase alternative
- C) the after-tax cash outflows for each year under the lease alternative
- D) the depreciation expense under the lease

Answer: <https://biology-forums.com/index.php?topic=577807>

Question 276

The temporal method requires specific assets and liabilities to be translated at so-called historic exchange rates and that foreign-exchange translation gains or losses be reflected in the current year's income.

Answer: <https://biology-forums.com/index.php?topic=578178>

Question 277

Tony's Beach T-Shirts has fixed annual operating costs of \$75,000. Tony retails his T-shirts for \$14.99 each and the variable cost per T-shirt is \$4.99. Based on this information, the breakeven sales level in units is _____.

- A) 7,500

- B) 15,030
- C) 5,003
- D) 3,754

Answer: <https://biology-forums.com/index.php?topic=577011>

Question 278

An internal forecast is based on _____.

- A) a buildup, or consensus, of sales forecasts through a firm's own sales channels, adjusted for additional factors such as production capabilities
- B) the relationships between a firm's sales and certain economic indicators
- C) the prediction of a firm's sales over a given period through surveys sent to financial analysts
- D) developing the pro forma income statement to forecast sales and then express the various income statement items as percentage of projected sales

Answer: <https://biology-forums.com/index.php?topic=575729>

Question 279

In defending against a hostile takeover, the strategy that involves the firm repurchasing through negotiation a large block of stock at a premium from one or more shareholders in order to end those shareholders' hostile takeover attempt is known as the _____ strategy.

- A) poison pill
- B) greenmail
- C) golden parachute
- D) shark repellent

Answer: <https://biology-forums.com/index.php?topic=578103>

Question 280

Investment decisions generally refer to the items that appear on the _____.

- A) left-hand side of the balance sheet, and financing decisions relate to the items on the right-hand side
- B) right-hand side of the balance sheet, and financing decisions relate to the items on the left-hand side
- C) right-hand side of the balance sheet, and financing decisions relate to the items on the income statement
- D) left-hand side of the balance sheet, and financing decisions relate to the items on the income statement

Answer: <https://biology-forums.com/index.php?topic=575312>

Question 281

The term structure of interest rates is a graphical presentation of the relationship between the maturity and rate of return.

Answer: <https://biology-forums.com/index.php?topic=575946>

Question 282

The basic inputs to an effective financial analysis are the firm's income statement and the balance sheet.

Answer: <https://biology-forums.com/index.php?topic=575508>

Question 283

Stock rights provide the stockholder with _____.

- A) the right to purchase additional shares in direct proportion to their number of owned shares
- B) the right to elect the board of directors
- C) cumulative voting privileges over the preference stockholders
- D) the opportunity to receive extraordinary earnings

Answer: <https://biology-forums.com/index.php?topic=576261>

Question 284

The _____ is created by a number of institutions and arrangements that allow the suppliers and demanders of long-term funds to make transactions.

- A) forex market
- B) capital market
- C) money market
- D) commodities market

Answer: <https://biology-forums.com/index.php?topic=575390>

Question 285

The approximate before-tax cost of debt for a 10-year, 8 percent, \$1,000 par value bond selling at \$1,150 is _____.

- A) 5.97 percent

- B) 8.33 percent
- C) 8.82 percent
- D) 9 percent

Answer: <https://biology-forums.com/index.php?topic=576572>

Question 286

The higher the risk-adjusted net present, the more viable the project.

Answer: <https://biology-forums.com/index.php?topic=576921>

Question 287

The risk-adjusted discount rate can be computed as the risk free rate plus the product of a project's beta and the market risk premium.

Answer: <https://biology-forums.com/index.php?topic=576921>

Question 288

The cost of preferred stock is typically higher than the cost of long-term debt (bonds) because the cost of long-term debt (interest) is tax deductible.

Answer: <https://biology-forums.com/index.php?topic=576585>

Question 289

The _____ approach is used to convert the net present value of unequal-lived projects into an equivalent annual amount (in net present value terms).

- A) internal rate of return
- B) investment opportunities schedule
- C) risk-adjusted discount rate
- D) annualized net present value

Answer: <https://biology-forums.com/index.php?topic=576938>

Question 290

In a tender offer share repurchase, a firm announces the price it is willing to pay to buy back shares and the quantity of shares it wishes to repurchase.

Answer: <https://biology-forums.com/index.php?topic=577177>

Question 291

Corporation A owns 15 percent of the stock of corporation B. Corporation B pays corporation A \$100,000 in dividends in 2002. Corporation A must pay tax on _____.

- A) \$100,000 of ordinary income
- B) \$ 30,000 of ordinary income
- C) \$ 70,000 of ordinary income
- D) \$ 70,000 of capital gain

Answer: <https://biology-forums.com/index.php?topic=575432>

Question 292

A downward-sloping yield curve indicates generally cheaper short-term borrowing costs than long-term borrowing costs.

Answer: <https://biology-forums.com/index.php?topic=575957>

Question 293

The ranking approach involves the ranking of capital expenditure projects on the basis of some predetermined measure such as the rate of return.

Answer: <https://biology-forums.com/index.php?topic=576681>

Question 294

Adam wants to determine the required return on a stock portfolio with a beta coefficient of 0.5. Assuming the risk-free rate of 6 percent and the market return of 12 percent, compute the required rate of return.

Answer: <https://biology-forums.com/index.php?topic=576530>

Question 295

Nico bought 500 shares of a stock for \$24.00 per share on January 1, 2013. He received a dividend of \$2.50 per share at the end of 2013 and \$4.00 per share at the end of 2014. At the end of 2015, Nico collected a dividend of \$3.00 per share and sold his stock for \$20.00 per share. What is Nico's realized total rate of return?

- A) -12.5%
- B) 12.5%

C) -20.7%

D) 20.7%

Answer: <https://biology-forums.com/index.php?topic=576365>

Question 296

The process of pooling mortgages or other types of loans and selling the claims or securities against that pool in the secondary market is called _____.

A) valuation

B) securitization

C) private placement

D) capital restructuring

Answer: <https://biology-forums.com/index.php?topic=575404>

Question 297

A firm has a cash conversion cycle of 60 days. Annual outlays are \$12 million and the cost of financing is 12 percent. If the firm reduces its average age of inventory by 10 days, the annual savings is _____. (Assume a 365-day year.)

A) \$10,400

B) \$14,000

C) \$28,800

D) \$39,452

Answer: <https://biology-forums.com/index.php?topic=577345>

Question 298

According to _____, investors' demands for dividends fluctuate over time.

A) the catering theory

B) Modigliani and Miller theory

C) the residual theory of dividends

D) CAPM theory

Answer: <https://biology-forums.com/index.php?topic=577246>

Question 299

Real options are opportunities that are embedded in capital budgeting projects that enable managers to alter their cash flows and risks in a way that affects project acceptability.

Answer: <https://biology-forums.com/index.php?topic=576940>

Question 300

Marc has purchased a new car for \$15,000. He paid \$2,500 as down payment and he paid the balance by a loan from his hometown bank. The loan is to be paid on a monthly basis for two years charging 12 percent interest. How much are the monthly payments?

Answer: <https://biology-forums.com/index.php?topic=575917>

Question 301

Jia's Fashions recently paid a \$2 annual dividend. The company is projecting that its dividends will grow by 20 percent next year, 12 percent annually for the two years after that, and then at 6 percent annually thereafter. Based on this information, how much should Jia's Fashions common stock sell for today if her required return is 10.5%?

A) \$54.90

B) \$60.80

C) \$59.16

D) \$69.30

Answer: <https://biology-forums.com/index.php?topic=576307>

Question 302

Given the following information about the two assets A and B, determine which asset is preferred.

Answer: <https://biology-forums.com/index.php?topic=576411>

Question 303

A firm needs \$2 million of new long-term financing. The firm is considering the sale of common stock or a convertible bond. The current market price of the common stock is \$42 per share. To sell this new issue, the stock would have to be underpriced by \$2 and sold for \$40 per share. The firm currently has 300,000 shares of common stock outstanding. The alternative is to issue 20-year, 10 percent, and \$1,000 par-value convertible bonds. The conversion price would be set at \$50 per share, and the bond could be sold at par. The earnings for the firm are expected to be \$500,000 in the

coming year. Assuming the firm chooses the sale of common stock, the earnings per share in the coming year will be _____.

- A) \$1.43
- B) \$1.44
- C) \$1.45
- D) \$1.47

Answer: <https://biology-forums.com/index.php?topic=577878>

Question 304

Financial markets are intermediaries that channel the savings of individuals, businesses, and government into loans or investments.

Answer: <https://biology-forums.com/index.php?topic=575358>

Question 305

Spontaneous liabilities such as accounts payable and accruals represent a use of financing that arise from the normal course of business.

Answer: <https://biology-forums.com/index.php?topic=577595>

Question 306

In most states, legal capital is measured not only by the par value and paid-in capital in excess of par, but also by any accumulated retained earnings.

Answer: <https://biology-forums.com/index.php?topic=577225>

Question 307

A firm has an operating profit of \$300,000, interest of \$35,000, and a tax rate of 40 percent. The firm has an after-tax cost of debt of 5 percent and a cost of equity of 15 percent. The firm's target capital structure is set at a mix of 40 percent debt and 60 percent equity. Assuming this as the optimum capital structure, the value of the firm is _____.

- A) \$1.4 million
- B) \$2.2 million
- C) \$1.8 million
- D) \$6.0 million

Answer: <https://biology-forums.com/index.php?topic=577140>

Question 308

Brian borrows \$5,000 from a bank at 8 percent annually compounded interest to be repaid in five annual installments. Calculate the principal paid in the third year.

Answer: <https://biology-forums.com/index.php?topic=575932>

Question 309

In general, with an amortized loan, the payment amount grows over the life of the loan, the principal portion of each payment grows over the life of the loan, and the interest portion declines over the life of the loan.

Answer: <https://biology-forums.com/index.php?topic=575872>

Question 310

Financial leverage multiplier is the ratio of _____.

- A) current assets to common stockholders' equity
- B) total assets to common stockholders' equity
- C) total assets to total debt
- D) current assets to current liabilities

Answer: <https://biology-forums.com/index.php?topic=575620>

Question 311

The value of a firm at optimum capital structure is computed as _____.

- A) earnings before interest and taxes times one less tax rate divided by one plus weighted average cost of capital
- B) earnings before interest and taxes times one less tax rate divided by weighted average cost of capital
- C) operating cash flow divided by weighted average cost of capital
- D) operating cash flow divided by one plus weighted average cost of capital

Answer: <https://biology-forums.com/index.php?topic=577139>

Question 312

Business firms are permitted to systematically charge a portion of the market value of fixed assets as depreciation against annual revenues.

Answer: <https://biology-forums.com/index.php?topic=575628>

Question 313

A(n) _____ is a paid individual, corporation, or a commercial bank trust department that acts as a third party to a bond indenture.

- A) trustee
- B) investment banker
- C) bond issuer
- D) bond rating agency

Answer: <https://biology-forums.com/index.php?topic=576015>

Question 314

The theoretical basis from which the concept of risk-adjusted discount rates is derived is _____.

- A) the Gordon model
- B) the capital asset pricing model
- C) simulation theory
- D) the basic cost of money

Answer: <https://biology-forums.com/index.php?topic=576933>

Question 315

What annual rate of return would Grandma Zoe need to earn if she deposits \$1,000 per month into an account beginning one month from today in order to have a total of \$1,000,000 in 30 years?

- A) 4.55%
- B) 5.28%
- C) 5.98%
- D) 6.23%

Answer: <https://biology-forums.com/index.php?topic=575913>

Question 316

The Sarbanes-Oxley Act of 2002 resulted in _____.

- A) tightened audit regulations and controls
- B) toughened penalties against overcompensated executives
- C) lenient penalties against executives who commit corporate fraud
- D) delayed disclosure of stock sales by corporate executives

Answer: <https://biology-forums.com/index.php?topic=575333>

Question 317

Effective capital structure decisions can lower the cost of capital, resulting in higher NPVs and more acceptable projects, thereby increasing the value of a firm.

Answer: <https://biology-forums.com/index.php?topic=577081>

Question 318

Gordon and Lintner, recognizing that dividends affect stock prices, suggest that positive effects of dividend increases are attributable _____.

- A) directly to the dividend policy
- B) directly to the optimal capital structure
- C) not to the informational content but to the consistency in the payment of dividends
- D) to the informational content of the dividends with respect to future earnings

Answer: <https://biology-forums.com/index.php?topic=577219>

Question 319

A firm has fixed operating costs of \$525,000. The sales price per unit is \$35 and its variable costs per unit is \$22.50. The firm's operating breakeven point in units is _____.

- A) \$23,330
- B) \$32,000
- C) \$42,000
- D) \$52,000

Answer: <https://biology-forums.com/index.php?topic=577000>

Question 320

When the required return is constant and equal to the coupon rate, the price of a bond as it approaches its maturity date will _____.

- A) remain at par

- B) increase
- C) decrease
- D) change depending on whether it is a discount or premium bond

Answer: <https://biology-forums.com/index.php?topic=576136>

Question 321

Fluctuations in foreign exchange markets can affect foreign revenues and profits of a multinational company, but they have no impact on its overall value.

Answer: <https://biology-forums.com/index.php?topic=578151>

Question 322

The current price of DEF Corporation stock is \$26.50 per share. Earnings next year should be \$2 per share and it should pay a \$1 dividend. The P/E multiple is 15 times on average. What price would you expect for DEF's stock in the future?

- A) \$13.50
- B) \$15.00
- C) \$26.50
- D) \$30.00

Answer: <https://biology-forums.com/index.php?topic=576332>

Question 323

Aunt Tillie has deposited \$33,000 today in an account which will earn 10 percent annually. She plans to leave the funds in this account for seven years earning interest. If the goal of this deposit is to cover a future obligation of \$65,000, what recommendation would you make to Aunt Tillie?

Answer: <https://biology-forums.com/index.php?topic=575790>

Question 324

The effective interest rate for a discount loan is greater than the loan's stated interest rate.

Answer: <https://biology-forums.com/index.php?topic=577644>

Question 325

Tangshan Mining was extended credit terms of 3/15 net 30 EOM. The cost of giving up the cash discount, assuming payment would be made on the last day of the credit period, would be _____. If the firm were able to stretch its accounts payable to 60 days without damaging its credit rating, the cost of giving up the cash discount would only be _____.

- A) 72.99%; 18.81%
- B) 72.99%; 18.25%
- C) 75.25%; 21.90%
- D) 75.26%; 25.09%

Answer: <https://biology-forums.com/index.php?topic=577620>

Question 326

Mutually exclusive projects are projects whose cash flows are unrelated to one another; the acceptance of one does not eliminate the others from further consideration.

Answer: <https://biology-forums.com/index.php?topic=576672>

Question 327

A firm needs \$5 million of new long-term financing. The firm is considering the sale of common stock or a convertible bond. The current market price of the common stock is \$65 per share. To sell this new issue, the stock would have to be underpriced by \$2 and sold for \$63 per share. The firm currently has 600,000 shares of common stock outstanding. The alternative is to issue 20-year, 10 percent, and \$1,000 par-value convertible bonds. The conversion price would be set at \$73 per share, and the bond could be sold at par. The earnings for the firm are expected to be \$4,000,000 in the coming year. Assuming the firm chooses the convertible bond, the earnings per share after all bonds are converted will be _____.

- A) \$6.67
- B) \$5.97
- C) \$5.85
- D) \$5.78

Answer: <https://biology-forums.com/index.php?topic=577879>

Question 328

A firm has a current ratio of 1; in order to improve its liquidity ratios, this firm might _____.

- A) improve its collection practices by providing extended credit policy.
- B) improve its collection practices and pay accounts payable, thereby decreasing current liabilities and decreasing the current and quick ratios.

- C) decrease current liabilities by utilizing more long-term debt, thereby increasing the current and quick ratios.
D) increase inventory, thereby increasing current assets and the current and quick ratios.

Answer: <https://biology-forums.com/index.php?topic=575559>

Question 329

Simulation is a statistics-based approach used in capital budgeting to get a feel for risk by applying predetermined probability distributions and random numbers to estimate risky outcomes.

Answer: <https://biology-forums.com/index.php?topic=576892>

Question 330

When the required return is constant but different from the coupon rate, the price of a bond as it approaches its maturity date will _____.

- A) remain constant
B) increase
C) decrease
D) approach par

Answer: <https://biology-forums.com/index.php?topic=576139>

Question 331

Smith, Inc. stock currently sells for \$75 per share. The firm has total assets of \$1,000,000 and total liabilities, including preferred stock, of \$350,000. If the firm has 10,000 shares of common stock outstanding,

- (a) what is the book value of each share of common stock?
(b) is the stock overvalued or undervalued in the marketplace?
(c) what is the reason(s) for your answer in (b)?

Answer: <https://biology-forums.com/index.php?topic=576341>

Question 332

_____ ratio measures a firm's ability to pay contractual interest payments.

- A) Times interest earned
B) Fixed-payment coverage
C) Debt
D) Average payment period

Answer: <https://biology-forums.com/index.php?topic=575588>

Question 333

Tangshan Mining Company has released the following information.

- (a) What are Tangshan Mining's current earnings per share?
(b) What is Tangshan Mining's current P/E ratio?
(c) Tangshan Mining wants to use half of its earnings either to pay shareholders dividends or to repurchase shares for inclusion in the firm's employee stock ownership plan. If the firm pays a cash dividend, what will be the dividend per share received by existing shareholders?
(d) Instead of paying the cash dividend, what if the firm uses half of its earnings to pay \$55 per share to repurchase the shares, what will be the firm's new EPS? What should be the firm's new share price?
(e) Compare the impact of a stock dividend and stock repurchase on shareholder wealth.

Answer: <https://biology-forums.com/index.php?topic=577292>

Question 334

_____ ensure that money lent under a line of credit agreement is actually being used to finance seasonal needs.

- A) Operating-change restrictions
B) Annual cleanups
C) Compensating balances
D) Commitment fees

Answer: <https://biology-forums.com/index.php?topic=577675>

Question 335

Fixed financial charges include _____.

- A) common stock dividends and bond interest expense
B) common stock dividends and preferred stock dividends
C) bond interest expense and preferred stock dividends
D) stock repurchase expense

Answer: <https://biology-forums.com/index.php?topic=577050>

Question 336

Which type of dividend payment policy has the advantage that if a firm's earnings drop, dividends will still be maintained at a relatively constant level?

- A) constant-payout-ratio policy
- B) regular dividend policy
- C) low-regular-and-extra dividend policy
- D) target dividend policy

Answer: <https://biology-forums.com/index.php?topic=577260>

Question 337

Pledges of accounts receivable are never made on a notification basis because the lender does not trust the borrower to collect the pledged account receivable and remit these payments as they are received.

Answer: <https://biology-forums.com/index.php?topic=577722>

Question 338

The higher, the value of _____ ratio, the better able a firm is to fulfill its interest obligations.

- A) dividend payout
- B) average collection period
- C) times interest earned
- D) average payment period

Answer: <https://biology-forums.com/index.php?topic=575590>

Question 339

A firm with a gross profit margin which meets industry standard and a net profit margin which is below industry standard must have excessive _____.

- A) general and administrative expenses
- B) cost of goods sold
- C) dividend payments
- D) principal payments

Answer: <https://biology-forums.com/index.php?topic=575598>

Question 340

By purchasing shares through a firm's dividend reinvestment plan (or DRIP), shareholders typically can acquire shares at a value that is below the prevailing market price.

Answer: <https://biology-forums.com/index.php?topic=577180>

Question 341

A firm's year-end retained earnings balances are \$320,000 and \$400,000, for 2014 and 2015 respectively. The firm reported net profits after taxes of \$100,000 in 2015. The firm's dividend payment for 2015 is _____.

- A) \$0
- B) \$20,000
- C) \$80,000
- D) \$100,000

Answer: <https://biology-forums.com/index.php?topic=575497>

Question 342

The weakness of the judgmental approach to preparing a pro forma balance sheet is _____.

- A) the assumption that the values of certain accounts can be forced to take on desired levels
- B) the assumption that the firm faces linear total revenue and total operating cost functions
- C) the assumption that the firm's past financial condition is an accurate predictor of its future
- D) ease of calculation and preparation

Answer: <https://biology-forums.com/index.php?topic=575768>

Question 343

Making investment decisions includes _____.

- A) inventory
- B) fixed assets
- C) accounts receivable
- D) notes payable

Answer: <https://biology-forums.com/index.php?topic=575317>

Question 344

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

10) An important aspect of a firm's reorganization plan is the recapitalization of the firm's capital structure. The goal of restructuring a firm's debt includes _____.

- A) decreasing the times interest earned ratio
- B) paying off existing debts
- C) exchanging equity for debts
- D) reducing the fixed-payment obligations

Answer: <https://biology-forums.com/index.php?topic=578142>

Question 345

Given the information in Table 8.2, what is the expected annual return of this portfolio?

- A) 11.4%
- B) 10.0%
- C) 11.0%
- D) 11.7%

Answer: <https://biology-forums.com/index.php?topic=576486>

Question 346

The possibility that the issuer of a bond will not pay the contractual interest or principal payments as scheduled is called maturity risk.

Answer: <https://biology-forums.com/index.php?topic=575962>

Question 347

A partnership between a multinational company and a foreign investor in which contractually specified amounts of money and expertise are contributed by the participants for stated proportions of ownership and profit is a _____.

- A) multinational corporation
- B) floating relationship
- C) joint venture
- D) consolidation

Answer: <https://biology-forums.com/index.php?topic=578163>

Question 348

An investment's total return is the sum of any cash distributions minus the change in the investment's value, divided by the beginning-of-period value.

Answer: <https://biology-forums.com/index.php?topic=576360>

Question 349

The forward exchange rate is the rate of exchange between two currencies on any given day.

Answer: <https://biology-forums.com/index.php?topic=578188>

Question 350

Using the DuPont system of analysis, holding other factors constant, an increase in financial leverage will result in _____.

- A) an increase in the return on equity
- B) a decrease in the gross profit margin
- C) an increase in the gross profit margin
- D) an increase in retained earnings

Answer: <https://biology-forums.com/index.php?topic=575621>

Question 351

Typically, higher coverage ratios are preferred, but a very high ratio may indicate under-utilization of fixed-payment obligations, which may result in unnecessarily low risk and return.

Answer: <https://biology-forums.com/index.php?topic=575584>

Question 352

The agency problem may result from a manager's concerns about _____.

- A) job security
- B) maximizing shareholder value
- C) corporate goals
- D) increasing credit worthiness

Answer: <https://biology-forums.com/index.php?topic=575344>

Question 353

A terminal warehouse is _____.

- A) a warehouse located beyond city limits for storing the merchandise
- B) a warehouse on the borrower's premises to store the merchandise
- C) a central warehouse storing the merchandise of various customers
- D) a warehouse located near the lender's home for storing the merchandise

Answer: <https://biology-forums.com/index.php?topic=577752>

Question 354

Political risk is easier to protect as compared to exchange rate risk.

Answer: <https://biology-forums.com/index.php?topic=576911>

Question 355

Since retained earnings are viewed as a fully subscribed issue of additional common stock, the cost of retained earnings is _____.

- A) less than the cost of new common stock equity
- B) equal to the cost of new common stock equity
- C) greater than the cost of new common stock equity
- D) not related to the cost of new common stock equity

Answer: <https://biology-forums.com/index.php?topic=576635>

Question 356

For the year ended December 31, 2014, a corporation had cash flow from operating activities of -\$10,000, cash flow from investment activities of \$4,000, and cash flow from financing activities of \$9,000. The statement of cash flows would show a _____.

- A) net decrease of \$3,000 in cash and marketable securities
- B) net decrease of \$5,000 in cash and marketable securities
- C) net increase of \$3,000 in cash and marketable securities
- D) net increase of \$5,000 in cash and marketable securities

Answer: <https://biology-forums.com/index.php?topic=575679>

Question 357

The Solar Inc. has daily cash receipts of \$90,000. A recent analysis of its collections indicated that customers' payments were in the mail for an average of 4 days. Once received, the payments are processed in one and a half days. After payments are deposited, it takes an average of two and a half days for these receipts to clear the banking system. If the firm's opportunity cost is 11%, would it be economically advisable for the firm to pay an annual fee of \$8,000 to reduce collection float by 2 days?

- A) Yes, because it would only cost \$8000 to save \$19,800, netting the company \$11,800.
- B) Yes, because it would only cost \$8000 to save \$59,400, netting the company \$51,400.
- C) No, because it would cost \$8000 to save \$880, netting the company -\$7,120.
- D) Yes, because it would only cost \$8000 to save \$9,900, netting the company \$1,900.

Answer: <https://biology-forums.com/index.php?topic=577547>

Question 358

Coupon interest rate on a bond represents the percentage of the bond's par value that will be paid annually, typically in two equal semiannual payments, as interest.

Answer: <https://biology-forums.com/index.php?topic=575998>

Question 359

In case of an existing asset which is depreciable and is used in business and is sold for a price equal to its initial purchase price, the difference between the sales price and its book value is considered as recaptured depreciation and will be taxed as ordinary income.

Answer: <https://biology-forums.com/index.php?topic=576847>

Question 360

Payout policy refers to the decisions that firms make about whether to distribute cash to shareholders, how much cash to distribute, and by what means the cash should be distributed.

Answer: <https://biology-forums.com/index.php?topic=577163>

Question 361

The cost of a long-term debt generally _____ that of a short-term debt.

- A) is less than
- B) is equal to
- C) is greater than
- D) is less than or equal to

Answer: <https://biology-forums.com/index.php?topic=576027>

Question 362

A vertical merger is a merger of two firms in the same line of business.

Answer: <https://biology-forums.com/index.php?topic=577974>

Question 363

A firm is said to be insolvent when its total assets is less than its total liabilities and stockholders' equity.

Answer: <https://biology-forums.com/index.php?topic=577304>

Question 364

What is the current price of a \$1,000 par value bond maturing in 9 years with a coupon rate of 8 percent, paid annually, that has a YTM of 9 percent?

- A) \$700
- B) \$945
- C) \$940
- D) \$1,062

Answer: <https://biology-forums.com/index.php?topic=576155>

Question 365

When the price of a firm's common stock _____ the conversion price, the market price of the convertible security will _____ to a level close to its conversion value.

- A) falls below; rise
- B) rises above; fall
- C) rises above; rise
- D) equals; fall

Answer: <https://biology-forums.com/index.php?topic=577852>

Question 366

The beta of the portfolio in Table 8.2, containing assets X, Y, and Z is _____.

- A) 1.5
- B) 2.4
- C) 1.6
- D) 2.0

Answer: <https://biology-forums.com/index.php?topic=576487>

Question 367

A firm has fixed operating costs of \$150,000, total sales of \$1,500,000, and total variable costs of \$1,275,000. The firm's operating breakeven point in dollars is _____.

- A) \$150,000
- B) \$176,471
- C) \$1,000,000
- D) \$1,425,000

Answer: <https://biology-forums.com/index.php?topic=577005>

Question 368

Given the information in Table 10.1 and 15 percent cost of capital,

- (a) compute the net present value.
- (b) should the project be accepted?

Answer: <https://biology-forums.com/index.php?topic=576759>

Question 369

When a firm decreases or cancels a cash discount, sales are expected to _____, the investment in accounts receivable is expected to _____, the bad debt expense is expected to _____, and the profit per unit is expected to _____.

- A) decrease; increase; increase; increase
- B) decrease; decrease; increase; increase
- C) increase; increase; decrease; decrease
- D) increase; decrease; decrease; decrease

Answer: <https://biology-forums.com/index.php?topic=577504>

Question 370

The EBIT-EPS approach to capital structure involves selecting the capital structure that maximizes earnings before interest and taxes (EBIT) over the expected range of earnings per share (EPS).

Answer: <https://biology-forums.com/index.php?topic=577143>

Question 371

Research and development is considered to be a motive for making capital expenditures.

Answer: <https://biology-forums.com/index.php?topic=576661>

Question 372

If the P/E paid is greater than the P/E of the acquiring company, the effect on the earnings per share of the acquired company will be _____.

- A) positive
- B) neutral
- C) negative
- D) unrelated

Answer: <https://biology-forums.com/index.php?topic=578074>

Question 373

A firm has common stock with a market price of \$100 per share and an expected dividend of \$5.61 per share at the end of the coming year. A new issue of stock is expected to be sold for \$98, with \$2 per share representing the underpricing necessary in the competitive capital market. Flotation costs are expected to total \$1 per share. The dividends paid on the outstanding stock over the past five years are as follows:

The cost of this new issue of common stock is _____.

- A) 5.8 percent
- B) 7.7 percent
- C) 10.8 percent
- D) 12.8 percent

Answer: <https://biology-forums.com/index.php?topic=576628>

Question 374

An increase in fixed operating costs will result in _____.

- A) a decrease in the degree of operating leverage
- B) an increase in the degree of operating leverage
- C) a decrease in the degree of financial leverage
- D) an increase in the degree of financial leverage

Answer: <https://biology-forums.com/index.php?topic=577038>

Question 375

Because retained earnings are a form of internal financing, the dividend decision can significantly affect a firm's external financing requirements.

Answer: <https://biology-forums.com/index.php?topic=577166>

Question 376

The tax treatment regarding the sale of existing assets that are sold for less than the book value results in _____.

- A) an ordinary tax benefit
- B) a capital loss tax benefit
- C) recaptured depreciation taxed as ordinary income
- D) a capital gain tax liability and recaptured depreciation taxed as ordinary income

Answer: <https://biology-forums.com/index.php?topic=576861>

Question 377

A(n) _____ is a cancelable contractual arrangement whereby the lessee agrees to make periodic payments to the lessor, often for 5 or fewer years, to obtain an asset's services.

- A) operating lease
- B) financial lease
- C) capital lease
- D) direct lease

Answer: <https://biology-forums.com/index.php?topic=577798>

Question 378

Scenario analysis is a behavioral approach that uses a number of possible outcomes to assess the variability of returns.

Answer: <https://biology-forums.com/index.php?topic=576890>

Question 379

Candy Corporation had pretax profits of \$1.2 million, an average tax rate of 34 percent, and it paid preferred stock dividends of \$50,000. There were 100,000 shares outstanding and no interest expense. What was Candy Corporation's earnings per share?

- A) \$3.91
- B) \$4.52
- C) \$7.42
- D) \$7.59

Answer: <https://biology-forums.com/index.php?topic=575495>

Question 380

The various causes of business failure are mismanagement, poor economic conditions, and corporate maturity.

Answer: <https://biology-forums.com/index.php?topic=578117>

Question 381

Risk aversion is the behavior exhibited by managers who require _____.

- A) an increase in return, for a given decrease in risk
- B) an increase in return, for a given increase in risk
- C) no changes in return, for a given increase in risk
- D) decrease in return, for a given increase in risk

Answer: <https://biology-forums.com/index.php?topic=576371>

Question 382

Since its objective is to minimize inventory investment, a Just-in-Time (JIT) system uses no, or very little, safety stocks.

Answer: <https://biology-forums.com/index.php?topic=577410>

Question 383

Which of the following valuation methods is superior to others in the list since it considers expected earnings?

- A) liquidation value
- B) book value
- C) P/E multiple
- D) present value of the interest

Answer: <https://biology-forums.com/index.php?topic=576330>

Question 384

The _____ feature allows bondholders to change each bond into stated number of shares of stock.

- A) call
- B) conversion
- C) put
- D) swap

Answer: <https://biology-forums.com/index.php?topic=576063>

Question 385

If a project's payback period is greater than the maximum acceptable payback period, we would reject it.

Answer: <https://biology-forums.com/index.php?topic=576708>

Question 386

According to the residual theory of dividends, if a firm's equity need is less than the amount of retained earnings, the firm would _____.

- A) borrow to pay the cash dividend
- B) declare a dividend equal to the remaining balance

C) pay no cash dividends
D) pay dividends higher than the remaining balance to gain credibility
Answer: <https://biology-forums.com/index.php?topic=577214>

Question 387

The liquidity preference theory suggests that the shape of the yield curve is determined by the supply and demand for funds within each maturity segment.
Answer: <https://biology-forums.com/index.php?topic=575954>

Question 388

Under recapitalization, debts are generally exchanged for equity or the maturities of existing debts are extended.
Answer: <https://biology-forums.com/index.php?topic=578132>

Question 389

If a firm's sale price per unit decreases, the firm's _____.
A) operating breakeven point will decrease
B) operating breakeven point will increase
C) variable costs per unit will decrease
D) variable costs per unit will increase
Answer: <https://biology-forums.com/index.php?topic=576997>

Question 390

Subprime mortgages are mortgage loans made to borrowers with high incomes and better than average credit histories.
Answer: <https://biology-forums.com/index.php?topic=575402>

Question 391

The motive to pay stock dividend to retain cash to satisfy past-due bills, may result in a decline in market value.
Answer: <https://biology-forums.com/index.php?topic=577272>

Question 392

Operating profit is _____.
A) gross profit minus operating expenses
B) sales revenue minus cost of goods sold
C) earnings before depreciation and taxes
D) sales revenue minus depreciation expense
Answer: <https://biology-forums.com/index.php?topic=575476>

Question 393

In general, the more debt a firm uses, the smaller its financial leverage.
Answer: <https://biology-forums.com/index.php?topic=575581>

Question 394

A Eurobond bond is a bond denominated in Euros.
Answer: <https://biology-forums.com/index.php?topic=576061>

Question 395

The future value of an annuity of \$1,000 each quarter for 10 years, deposited at 12 percent compounded quarterly is _____.
A) \$17,549
B) \$75,401
C) \$93,049
D) \$11,200
Answer: <https://biology-forums.com/index.php?topic=575859>

Question 396

_____ projects do not compete with each other; the acceptance of one _____ the others from consideration.
A) Capital; eliminates
B) Independent; does not eliminate
C) Mutually exclusive; eliminates

D) Replacement; eliminates

Answer: <https://biology-forums.com/index.php?topic=576696>

Question 397

Coefficient of variation is a measure of relative dispersion used in comparing the risks of assets with differing expected return.

Answer: <https://biology-forums.com/index.php?topic=576385>

Question 398

The present value of a \$20,000 perpetuity at a 7 percent discount rate is _____.

- A) \$186,915
- B) \$285,714
- C) \$140,000
- D) \$325,000

Answer: <https://biology-forums.com/index.php?topic=575801>

Question 399

Assume the following returns and yields: U.S. T-bill = 8%, 5-year U.S. T-note = 7%, IBM common stock = 15%, IBM AAA Corporate Bond = 12% and 10-year U.S. T-bond = 6%. Based on this information, the shape of the yield curve is _____.

- A) upward sloping
- B) downward sloping
- C) flat
- D) normal

Answer: <https://biology-forums.com/index.php?topic=575992>

Question 400

A firm has an issue of preferred stock outstanding that has a stated annual dividend of \$4. The required return on the preferred stock has been estimated to be 16 percent. The value of the preferred stock is _____.

- A) \$64
- B) \$16
- C) \$25
- D) \$50

Answer: <https://biology-forums.com/index.php?topic=576293>

Question 401

Most firms employ _____ funding strategy if their sales and investments in operating assets are constant.

- A) aggressive
- B) conservative
- C) permanent
- D) seasonal

Answer: <https://biology-forums.com/index.php?topic=577399>

Question 402

The goal of business ethics is to motivate business and market participants to adhere to both the letter and the spirit of laws and regulations in all aspects of business and professional practice.

Answer: <https://biology-forums.com/index.php?topic=575254>

Question 403

A firm's credit standards are the minimum requirements for extending credit to a customer.

Answer: <https://biology-forums.com/index.php?topic=577447>

Question 404

By purchasing shares through a firm's dividend reinvestment plan (or DRIP), shareholders typically can acquire shares at a value that is above the prevailing market price.

Answer: <https://biology-forums.com/index.php?topic=577181>

Question 405

If an investor buys a 100-share call option for \$250 with an exercise price of \$60 and the underlying price per share of the stock at expiration is \$66, what is the amount of profit or loss, ignoring brokerage fees?

- A) There would be a profit of \$350.

- B) There would be a profit of \$600.
- C) There would be a profit of \$250.
- D) There would be a loss of \$250.

Answer: <https://biology-forums.com/index.php?topic=577934>

Question 406

Breakeven analysis is used by a firm to determine the level of operations necessary to cover all fixed operating costs and to evaluate the profitability associated with various levels of production.

Answer: <https://biology-forums.com/index.php?topic=576967>

Question 407

Recent divestitures seem to suggest that many operating units are worth much more to others than to the firm itself.

Answer: <https://biology-forums.com/index.php?topic=578030>

Question 408

In the capital asset pricing model, the beta coefficient is a measure of _____.

- A) business-specific risk
- B) maturity risk
- C) market risk
- D) unsystematic risk

Answer: <https://biology-forums.com/index.php?topic=576521>

Question 409

The value of a bond that pays semiannual interest is greater than that on an otherwise equivalent annual coupon interest paying bond.

Answer: <https://biology-forums.com/index.php?topic=576112>

Question 410

The _____ is a significant economic force currently made up of 28 nations with a population of more than 500 million that permits free trade within the countries that make up this group.

- A) North American Free Trade Agreement (NAFTA)
- B) Mercosur Group
- C) Asian Economic Area Network (ASEAN)
- D) European Union (EU)

Answer: <https://biology-forums.com/index.php?topic=578170>

Question 411

In the basic valuation model, risk is generally incorporated into the _____.

- A) cash flows
- B) timing
- C) discount rate
- D) total value

Answer: <https://biology-forums.com/index.php?topic=576108>

Question 412

Which of the following is true of a capital expenditure?

- A) It is an outlay made to replace current assets.
- B) It is an outlay expected to produce benefits within one year.
- C) It is commonly used for current asset expansion.
- D) It is commonly used to expand the level of operations.

Answer: <https://biology-forums.com/index.php?topic=576689>

Question 413

An efficient portfolio is a portfolio that maximizes return for a given level of risk or minimizes risk for a given level of return.

Answer: <https://biology-forums.com/index.php?topic=576416>

Question 414

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Previous Edition

AACSB Tag: Analytic Skills

13) Aiyah, Inc. recently has had financial difficulty and is being liquidated by the Federal Bankruptcy Court. The firm has a liquidation value of \$1,000,000—\$400,000 from the fixed assets that served as collateral for the mortgage bonds and \$600,000 from all other assets (all prior claims have been satisfied). The firm's current capital structure is as follows:

The common stockholders will receive _____ in the liquidation.

- A) \$500,000
- B) \$333,333
- C) \$198,000
- D) \$0

Answer: <https://biology-forums.com/index.php?topic=578145>

Question 415

Allocation of the historic costs of fixed assets against the annual revenue they generate is called _____.

- A) arbitraging
- B) securitization
- C) depreciation
- D) amortization

Answer: <https://biology-forums.com/index.php?topic=575632>

Question 416

The _____ is a popular approach for evaluating profitability in relation to sales by expressing each item on the income statement as a percent of sales.

- A) retained earnings statement
- B) common-size balance sheet
- C) common-size income statement
- D) profit and loss statement

Answer: <https://biology-forums.com/index.php?topic=575595>

Question 417

To calculate the initial investment, we subtract all cash inflows occurring at time zero from all cash outflows occurring at time zero.

Answer: <https://biology-forums.com/index.php?topic=576831>

Question 418

A bank lends a firm \$1,000,000 for one year at 12 percent on a discounted basis and requires compensating balances of 10 percent of the face value of the loan. The effective annual interest rate associated with this loan is _____.

- A) 12 percent
- B) 13.3 percent
- C) 13.6 percent
- D) 15.4 percent

Answer: <https://biology-forums.com/index.php?topic=577672>

Question 419

What is Nico's portfolio beta if he invests an equal amount in Asset X with a beta of 0.60, Asset Y with a beta of 1.60, and the risk-free asset?

- A) 1.24
- B) 1.00
- C) 0.73
- D) 0.66

Answer: <https://biology-forums.com/index.php?topic=576495>

Question 420

In general, floatation costs include two components, underwriting costs and administrative costs.

Answer: <https://biology-forums.com/index.php?topic=576561>

Question 421

The depreciable value of an asset, under MACRS, is _____.

- A) the full cost excluding installation costs
- B) the full cost minus salvage value
- C) the full cost including installation costs
- D) the full cost including installation costs adjusted for the salvage value

Answer: <https://biology-forums.com/index.php?topic=575641>

Question 422

A corporation is selling an existing asset for \$1,000. The asset, when purchased, cost \$10,000, was being depreciated under MACRS using a five-year recovery period, and has been depreciated for four full years. If the assumed tax rate is 40 percent on ordinary income and capital gains, the tax effect of this transaction is _____.

- A) \$0 tax liability
- B) \$1,100 tax liability
- C) \$3,600 tax liability
- D) \$280 tax benefit

Answer: <https://biology-forums.com/index.php?topic=576864>

Question 423

_____ ratio measures the proportion of total assets financed by the firm's creditors.

- A) Total asset turnover
- B) Inventory turnover
- C) Current
- D) Debt

Answer: <https://biology-forums.com/index.php?topic=575587>

Question 424

Which of the following is true of a leveraged buyout?

- A) It is a type of a strategic merger.
- B) It is used to increase market share, which is used to maximize shareholder wealth.
- C) It aims at developing monopoly control over the markets.
- D) It involves the use of a large amount of debt to purchase a firm.

Answer: <https://biology-forums.com/index.php?topic=578038>

Question 425

Floating-rate bonds are bonds that can be redeemed at par at the option of their holder either at specific date after the date of issue and every 1 to 5 years thereafter or when and if the firm takes specified actions such as being acquired, acquiring another company, or issuing a large amount of additional debt.

Answer: <https://biology-forums.com/index.php?topic=576057>

Question 426

Harry Mining, a U.S.-based MNC has a foreign subsidiary that earns \$1,050,000 before local taxes, with all the after tax funds to be available to the parent in the form of dividends. The foreign income tax rate is 30 percent, the foreign dividend withholding tax rate is 15 percent, and the firm's U.S. tax rate is 35 percent. What are the funds available to the parent MNC if no tax credits are allowed?

- A) \$624,752
- B) \$425,250
- C) \$406,088
- D) \$735,000

Answer: <https://biology-forums.com/index.php?topic=578185>

Question 427

Which of the following represents an advantage for holding companies?

- A) They are easy to analyze for investment purposes.
- B) They are facilitated with reduced federal corporate taxes due to the holding company status.
- C) They are exempted from double taxation.
- D) They permit a firm to control a large amount of assets with relatively small dollar investment.

Answer: <https://biology-forums.com/index.php?topic=578113>

Question 428

An increase in the beta of a corporation, all else being the same, indicates _____.

- A) a decrease in risk, a higher required rate of return, and hence a lower share price
- B) an increase in risk, a higher required rate of return, and hence a lower share price
- C) a decrease in risk, a lower required rate of return, and hence a higher share price
- D) an increase in risk, a lower required rate of return, and hence a higher share price

Answer: <https://biology-forums.com/index.php?topic=576526>

Question 429

Which of the following is a duty of a financial manager in a business firm?

- A) developing marketing plans
- B) controlling the stock price
- C) raising financial resources
- D) auditing financial records

Answer: <https://biology-forums.com/index.php?topic=575226>

Question 430

A yield curve that reflects relatively similar borrowing costs for both short-term and long-term loans is called as _____.

- A) normal yield curve
- B) inverted yield curve
- C) flat yield curve
- D) lognormal curve

Answer: <https://biology-forums.com/index.php?topic=575979>

Question 431

Most investments decline in value when the interest rates rise and increase in value when interest rates fall.

Answer: <https://biology-forums.com/index.php?topic=576357>

Question 432

An approach for assessing risk that uses a number of possible return estimates to obtain a sense of the variability among outcomes is called scenario analysis.

Answer: <https://biology-forums.com/index.php?topic=576381>

Question 433

In U.S., during the past 75 years, on an average the return on large-company stocks has exceeded the return on small-company stocks.

Answer: <https://biology-forums.com/index.php?topic=576387>

Question 434

Complete the balance sheet for General Aviation, Inc. based on the following financial data.

Balance Sheet

General Aviation, Inc.

December 31, 2013

Key Financial Data (2005)

1. Sales totaled \$720,000.
2. The gross profit margin was 38.7 percent.
3. Inventory turned 6 times.
4. There are 360 days in a year.
5. The average collection period was 31 days.
6. The current ratio was 2.35.
7. The total asset turnover was 2.81.
8. The debt ratio was 49.4 percent.
9. Total current assets equal \$159,565.

Answer: <https://biology-forums.com/index.php?topic=575623>

Question 435

During 2002, a firm has sold 5 assets described below. Calculate the tax liability on the assets. The firm pays a 40 percent tax rate on ordinary income.

Answer: <https://biology-forums.com/index.php?topic=575436>

Question 436

The possibility that the issuer of a bond will not pay the contractual interest or principal payments as scheduled is called default risk.

Answer: <https://biology-forums.com/index.php?topic=575963>

Question 437

Which capital budgeting method is most useful for evaluating a project that has an initial after-tax cost of \$5,000,000 and is expected to provide after-tax operating cash flows of \$1,800,000 in year 1, (\$2,900,000) in year 2, \$2,700,000 in year 3, and \$2,300,000 in year 4?

- A) net present value
- B) internal rate of return
- C) payback
- D) accounting rate of return

Answer: <https://biology-forums.com/index.php?topic=576807>

Question 438

The cost of capital is a static concept and it is not affected by economic and firm-specific factors such as business risk and financial risk.

Answer: <https://biology-forums.com/index.php?topic=576543>

Question 439

Last year, Mike bought 100 shares of Dallas Corporation common stock for \$53 per share. During the year he received dividends of \$1.45 per share. The stock is currently selling for \$60 per share. What rate of return did Mike earn over the year?

- A) 11.7 percent
- B) 13.2 percent
- C) 14.1 percent
- D) 15.9 percent

Answer: <https://biology-forums.com/index.php?topic=576368>

Question 440

The residual theory of dividends suggests that the dividend paid by a firm should be viewed as a residual, the amount left over after all acceptable investment opportunities have been undertaken.

Answer: <https://biology-forums.com/index.php?topic=577201>

Question 441

In case of an overhanging issue, if a firm were to call the issue, the bondholders would accept the call price rather than converting their bonds.

Answer: <https://biology-forums.com/index.php?topic=577830>

Question 442

Capital gain is the portion of the sale price that is in excess of the initial purchase price.

Answer: <https://biology-forums.com/index.php?topic=576849>

Question 443

Cash flows directly related to production and sale of a firm's products and services are called _____.

- A) cash flow from operating activities
- B) cash flow from investment activities
- C) cash flow from financing activities
- D) cash flow from equity activities

Answer: <https://biology-forums.com/index.php?topic=575672>

Question 444

Which of the following is an example of agency cost?

- A) costs incurred for setting up an agency
- B) failure of making the best investment decision
- C) payment of income tax
- D) payment of interest

Answer: <https://biology-forums.com/index.php?topic=575338>

Question 445

Which of the following is true of a dealer market?

- A) Buyers and sellers are never brought together directly.
- B) Brokers execute the buy or sell orders in a dealer market.
- C) It has centralized trading floors.
- D) It is a part of the broker market.

Answer: <https://biology-forums.com/index.php?topic=575384>

Question 446

Johnson, Inc. has just ended the calendar year making a sale in the amount of \$10,000 of merchandise purchased during the year at a total cost of \$7,000. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The net profit and cash flow

from this sale for the year are _____.

- A) \$3,000 and \$10,000, respectively
- B) \$3,000 and -\$7,000, respectively
- C) \$7,000 and -\$3,000, respectively
- D) \$3,000 and \$7,000, respectively

Answer: <https://biology-forums.com/index.php?topic=575303>

Question 447

The portion of an asset's sale price that is above its book value and below its initial purchase price is called _____.

- A) a capital gain
- B) recaptured depreciation
- C) a capital loss
- D) book value

Answer: <https://biology-forums.com/index.php?topic=576859>

Question 448

Which of the following is true of the issuance of nonvoting common stock?

- A) It is issued in the event of a hostile takeover to preserve the interests of existing owners.
- B) It helps the corporation to raise capital through the sale of common stock, without giving up its voting control.
- C) It helps the existing stockholders to automatically transfer their voting rights to new stockholders without any legal proceeding.
- D) It tends to result in the dilution of voting rights of current stockholders.

Answer: <https://biology-forums.com/index.php?topic=576270>

Question 449

The capital budgeting process consists of four distinct but interrelated steps: proposal generation, review and analysis, decision making, and termination.

Answer: <https://biology-forums.com/index.php?topic=576663>

Question 450

For a risk-averse manager, the required return increases for an increase in risk.

Answer: <https://biology-forums.com/index.php?topic=576355>

Question 451

Which of the following line items of the statement of cash flows must be obtained from the income statement ?

- A) accruals in current liabilities
- B) interest expenses
- C) accounts receivable
- D) cash dividends paid on both preferred and common stocks

Answer: <https://biology-forums.com/index.php?topic=575671>

Question 452

Which of the following is true of securities analysts?

- A) They raise initial external equity finance privately for firms.
- B) They are primarily involved in underwriting of securities.
- C) They find prospective buyers for new stocks or bonds issue.
- D) They use a variety of models and techniques to value stocks.

Answer: <https://biology-forums.com/index.php?topic=576266>

Question 453

Which of the following legal forms of organizations is characterized by unlimited liability?

- A) sole proprietorship
- B) limited partnership
- C) corporation
- D) C-corporation

Answer: <https://biology-forums.com/index.php?topic=575239>

Question 454

Breakeven analysis is used by a firm _____.

- A) to determine the level of operations necessary to cover all fixed operating costs

- B) to determine the least cost of producing goods and services
- C) to evaluate the profitability associated with various levels of sales
- D) to determine the demand of a product

Answer: <https://biology-forums.com/index.php?topic=576994>

Question 455

Generally, an increase in risk will result in _____.

- A) a lower required return or interest rate
- B) a higher required return or interest rate
- C) a higher return on investment
- D) a lower return on investment

Answer: <https://biology-forums.com/index.php?topic=575965>

Question 456

The official melding of the national currencies of the European Union into one currency, the euro, created the European monetary union in 2002.

Answer: <https://biology-forums.com/index.php?topic=578156>

Question 457

A stock swap transaction is an acquisition method in which an acquiring firm exchanges its shares for shares of the target company according to a predetermined ratio.

Answer: <https://biology-forums.com/index.php?topic=578052>

Question 458

Business combinations are used by firms to externally expand in order to increase _____.

- A) provision for doubtful accounts
- B) common stock outstanding
- C) production capacity
- D) financial leverage

Answer: <https://biology-forums.com/index.php?topic=577978>

Question 459

Total leverage is concerned with the relationship between a firm's sales revenue and its common stock earnings per share.

Answer: <https://biology-forums.com/index.php?topic=576959>

Question 460

Primary motives for merging include growth or diversification, synergy, fund raising, increased managerial skill or technology, tax considerations, increased ownership liquidity, and defense against takeovers.

Answer: <https://biology-forums.com/index.php?topic=577967>

Question 461

Paying a stock dividend _____.

- A) decreases the retained earnings account
- B) has no effect on the retained earnings account
- C) increases the retained earnings account
- D) reorganizes the income

Answer: <https://biology-forums.com/index.php?topic=577277>

Question 462

Nico invested an amount a year ago and calculated his return on investment. He found that his purchasing power had increased by 15 percent as a result of his investment. If inflation during the year was 4 percent, then Nico's _____.

- A) real return on investment is more than 15 percent
- B) nominal return on investment is more than 15 percent
- C) nominal return on investment is less than 11 percent
- D) real return on investment is equal to 4 percent

Answer: <https://biology-forums.com/index.php?topic=575970>

Question 463

The preemptive right gives shareholders the right _____.

- A) to cast one vote for each share owned at the annual meeting of the company

- B) to give up their vote to another party if they do not attend the annual meeting
C) to maintain their proportionate ownership in the corporation when new common stock is issued
D) to sell their share of stock at a premium in the event of liquidation

Answer: <https://biology-forums.com/index.php?topic=576262>

Question 464

A portfolio of two negatively correlated assets has less risk than either of the individual assets.

Answer: <https://biology-forums.com/index.php?topic=576432>

Question 465

Business risk is the risk to the firm of being unable to cover required financial obligations.

Answer: <https://biology-forums.com/index.php?topic=577077>

Question 466

An option buyer who expects a stock price to decline will purchase a put option.

Answer: <https://biology-forums.com/index.php?topic=577918>

Question 467

Average age of inventory can be calculated as 365 divided by inventory turnover.

Answer: <https://biology-forums.com/index.php?topic=575552>

Question 468

A corporation has decided to replace an existing asset with a newer model. Two years ago, the existing asset originally cost \$30,000 and was being depreciated under MACRS using a five-year recovery period. The existing asset can be sold for \$25,000. The new asset will cost \$75,000 and will also be depreciated under MACRS using a five-year recovery period. If the assumed tax rate is 40 percent on ordinary income and capital gains, the initial investment is _____.

- A) \$42,000
B) \$52,440
C) \$54,240
D) \$50,000

Answer: <https://biology-forums.com/index.php?topic=576867>

Question 469

The nominal (stated) annual rate is the rate of interest actually paid or earned.

Answer: <https://biology-forums.com/index.php?topic=575845>

Question 470

The future value of a \$10,000 annuity due deposited at 12 percent compounded annually for each of the next 5 years is _____.

- A) \$36,050
B) \$63,530
C) \$40,376
D) \$71,152

Answer: <https://biology-forums.com/index.php?topic=575807>

Question 471

From a bond issuer's perspective, the IRR on a bond's cash flows is its yield to maturity (YTM); from the investor's perspective, the IRR on a bond's cash flows is the cost to maturity.

Answer: <https://biology-forums.com/index.php?topic=576566>

Question 472

Capital budgeting is the process of evaluating and selecting short-term investments that are consistent with the firm's goal of maximizing owners' wealth.

Answer: <https://biology-forums.com/index.php?topic=576655>

Question 473

The security agreement is an agreement between the borrower and the lender that specifies the collateral held against a secured loan.

Answer: <https://biology-forums.com/index.php?topic=577711>

Question 474

In general, with an amortized loan, the payment amount remains constant over the life of the loan, both the principal portion of and the interest portion declines over the life of the loan.

Answer: <https://biology-forums.com/index.php?topic=575871>

Question 475

Assuming that the level of total assets remains unchanged, the effect of a decrease in the ratio of current assets to total assets is an increase in a firm's risk of insolvency.

Answer: <https://biology-forums.com/index.php?topic=577306>

Question 476

The cash conversion cycle is the sum of average age of the inventory and average collection period minus average payment period.

Answer: <https://biology-forums.com/index.php?topic=577331>

Question 477

A firm had the following accounts and financial data for 2014:

The firm's net profit after taxes for 2014 is _____.

- A) -\$206.40
- B) \$213.80
- C) \$320.40
- D) \$206.25

Answer: <https://biology-forums.com/index.php?topic=575491>

Question 478

A group formed by an investment banker to share the financial risk associated with underwriting new securities is called a(n) _____.

- A) underwriting syndicate
- B) selling group
- C) investment banking consortium
- D) broker pool

Answer: <https://biology-forums.com/index.php?topic=576271>

Question 479

Bonds are _____.

- A) a series of perpetual short-term debt instruments
- B) a form of equity financing that pays interest
- C) long-term debt instruments used to raise large sums of money
- D) a hybrid form of financing used to raise large sums of money from a diverse group of lenders

Answer: <https://biology-forums.com/index.php?topic=576123>

Question 480

Certain mathematical properties may cause a project with a nonconventional cash flow pattern to have multiple IRRs; this problem does not occur with the NPV approach.

Answer: <https://biology-forums.com/index.php?topic=576791>

Question 481

A financial merger is undertaken to _____.

- A) increase profit margin to enhance the retained earnings of the merged firm
- B) improve raw material sourcing and finished product distribution
- C) increase market share, which is used to maximize shareholder wealth
- D) increase cash flows to service the debt incurred to finance the merger

Answer: <https://biology-forums.com/index.php?topic=577991>

Question 482

The cost of capital is used to decide whether a proposed corporate investment will increase or decrease a firm's stock price.

Answer: <https://biology-forums.com/index.php?topic=576538>

Question 483

Independent projects are projects that compete with one another for a firm's resources, so that the acceptance of one eliminates the others from further consideration.

Answer: <https://biology-forums.com/index.php?topic=576664>

Question 484

Earnings per share results from dividing earnings available for common stockholders by the number of shares of common stock authorized.

Answer: <https://biology-forums.com/index.php?topic=575454>

Question 485

The best way to adjust for the presence of fixed costs when using the simplified approach for pro forma income statement preparation is _____.

- A) to proportionately vary the fixed costs with the change in sales
- B) to adjust for projected fixed-asset outlays
- C) to disproportionately vary the costs with the change in sales
- D) to break the firm's historical costs into fixed and variable components

Answer: <https://biology-forums.com/index.php?topic=575755>

Question 486

Everything else being equal, the longer the period of time, the lower the present value.

Answer: <https://biology-forums.com/index.php?topic=575778>

Question 487

Nico Corp issued bonds bearing a coupon rate of 12 percent, pay coupons semiannually, have 3 years remaining to maturity, and are currently priced at \$940 per bond. What is the yield to maturity?

- A) 12.00%
- B) 13.99%
- C) 14.54%
- D) 15.25%

Answer: <https://biology-forums.com/index.php?topic=576160>

Question 488

A single-payment note is a secured fund which can be obtained from a commercial bank when a borrower needs additional funds for a short period.

Answer: <https://biology-forums.com/index.php?topic=577638>

Question 489

Projects that compete with one another, so that the acceptance of one eliminates the others from further consideration are called _____.

- A) independent projects
- B) mutually exclusive projects
- C) replacement projects
- D) capital projects

Answer: <https://biology-forums.com/index.php?topic=576699>

Question 490

A call feature in a bond allows the issuer the opportunity to repurchase bonds at a stated price prior to maturity, and this option has a greater chance of being exercised (to the benefit of the bondholder) if market interest rates have fallen since the bond was issued.

Answer: <https://biology-forums.com/index.php?topic=576041>

Question 491

As credit standards are relaxed, sales are expected to increase and the investment in accounts receivable is expected to decrease.

Answer: <https://biology-forums.com/index.php?topic=577455>

Question 492

A detachable stock purchase warrant means that the bondholders may sell the warrant without selling the security to which it is attached.

Answer: <https://biology-forums.com/index.php?topic=577893>

Question 493

The cost of common stock equity may be estimated by using the _____.

- A) yield curve
- B) capital asset pricing model

- C) break-even analysis
- D) DuPont analysis

Answer: <https://biology-forums.com/index.php?topic=576617>

Question 494

By using convertible bonds, an issuing firm can temporarily raise debt, which is typically less expensive than common stock, to finance projects.

Answer: <https://biology-forums.com/index.php?topic=577825>

Question 495

Interest rate risk is the chance that changes in interest rates will adversely affect the value of an investment.

Answer: <https://biology-forums.com/index.php?topic=576356>

Question 496

Cumulative preferred stocks are preferred stocks for which all passed (unpaid) dividends in arrears must be paid along with the current dividend prior to the payment of dividends to common stockholders.

Answer: <https://biology-forums.com/index.php?topic=576196>

Question 497

A consolidated corporation has voting control of one or more other corporations.

Answer: <https://biology-forums.com/index.php?topic=577960>

Question 498

An annuity with an infinite life is called a(n) _____.

- A) perpetuity
- B) prima
- C) option
- D) deep discount

Answer: <https://biology-forums.com/index.php?topic=575800>

Question 499

In comparing an ordinary annuity and an annuity due, which of the following is true?

- A) The future value of an annuity due is always greater than the future value of an otherwise identical ordinary annuity.
- B) The future value of an ordinary annuity is always greater than the future value of an otherwise identical annuity due.
- C) The future value of an annuity due is always less than the future value of an otherwise identical ordinary annuity, since one less payment is received with an annuity due.
- D) All things being equal, one would prefer to receive an ordinary annuity compared to an annuity due.

Answer: <https://biology-forums.com/index.php?topic=575805>

Question 500

It would be a financially sound decision to pay employees once every two weeks rather than once a month.

Answer: <https://biology-forums.com/index.php?topic=577619>

Question 501

In the Eurobond market, corporations and governments typically issue bonds denominated in dollars and sell them to investors located outside the United States.

Answer: <https://biology-forums.com/index.php?topic=575370>

Question 502

If a United States Savings bond can be purchased for \$29.50 and has a maturity value of \$100 at the end of 25 years, what is the annual rate of return on the bond?

- A) 5 percent
- B) 6 percent
- C) 7 percent
- D) 8 percent

Answer: <https://biology-forums.com/index.php?topic=575879>

Question 503

Danny's Distributing, Inc. has completed an analysis of check-clearing times of five key suppliers. On a weekly basis, the firm has a \$50,000 check

disbursed to each of these suppliers, totaling \$250,000. In examining the check-clearing times of each supplier, the firm revealed: Given this information, what recommendation would you give the firm with respect to paying its suppliers weekly? Explain.

Answer: <https://biology-forums.com/index.php?topic=577580>

Question 504

Which of the following typically applies to common stock but not to preferred stock?

- A) par value
- B) dividend yield
- C) legally considered as equity in the firm
- D) voting rights

Answer: <https://biology-forums.com/index.php?topic=576203>

Question 505

Jia has just won a \$20 million lottery, which will pay her \$1 million at the end of each year for 20 years. An investor has offered her \$10 million for this annuity. She estimates that she can earn 10 percent interest, compounded annually, on any amounts she invests. She asks your advice on whether to accept or reject the offer. What will you tell her? (Ignore Taxes)

Answer: <https://biology-forums.com/index.php?topic=575827>

Question 506

Nico establishes a seven-year, 8 percent loan with a bank requiring annual end-of-year payments of \$960.43. Calculate the original principal amount.

Answer: <https://biology-forums.com/index.php?topic=575825>

Question 507

Venture capitalists invest in promising early-stage companies in exchange for a portion of the firm's equity.

Answer: <https://biology-forums.com/index.php?topic=576240>

Question 508

The cash flows from operating activities section of the statement of cash flows includes _____.

- A) labor expense
- B) proceeds from the sale of fixed assets
- C) principal paid
- D) dividends paid

Answer: <https://biology-forums.com/index.php?topic=575666>

Question 509

Commercial paper is a form of financing that consists of short-term, secured promissory notes issued by firms with a high credit standing.

Answer: <https://biology-forums.com/index.php?topic=577690>

Question 510

Gina has planned to start her college education four years from now. To pay for her college education, she has decided to save \$1,000 a quarter for the next four years in a bank account paying 12 percent interest. How much will she have at the end of the fourth year?

- A) \$ 1,574
- B) \$19,116
- C) \$20,157
- D) \$16,000

Answer: <https://biology-forums.com/index.php?topic=575861>

Question 511

John borrowed \$12,000 to buy a new car and expects to pay \$564.87 per month for the next 2 years to pay off the loan. What is the loan's rate of interest?

Answer: <https://biology-forums.com/index.php?topic=575922>

Question 512

A firm with a cost of capital of 13.5 percent is evaluating three capital projects. The internal rates of return are as follows:

The firm should _____.

- A) accept Project 1 and 2, and reject Project 3
- B) accept Project 2, and reject Projects 1 and 3
- C) accept Project 1, and reject Projects 2 and 3

D) accept Project 3, and reject Projects 1 and 2

Answer: <https://biology-forums.com/index.php?topic=576800>

Question 513

As the risk of a stock investment increases, investors' _____.

- A) return will increase
- B) return will decrease
- C) required rate of return will decrease
- D) required rate of return will increase

Answer: <https://biology-forums.com/index.php?topic=575270>

Question 514

The objective of _____ is to select the group of projects that provides the highest overall net present value and does not require more dollars than are budgeted.

- A) capital rationing
- B) scenario analysis
- C) real options
- D) sensitivity analysis

Answer: <https://biology-forums.com/index.php?topic=576949>

Question 515

Unlike business bankruptcy and business failure, divestiture is often undertaken for positive motives in a manner that is consistent with the firm's strategic goals.

Answer: <https://biology-forums.com/index.php?topic=578024>

Question 516

Which of the following is a fixed asset?

- A) land
- B) accounts payable
- C) accruals
- D) notes payable

Answer: <https://biology-forums.com/index.php?topic=575483>

Question 517

An outlay for advertising and management consulting is considered to be a fixed asset expenditure.

Answer: <https://biology-forums.com/index.php?topic=576657>

Question 518

Longer the maturity of a Treasury security, the smaller the interest rate risk.

Answer: <https://biology-forums.com/index.php?topic=575938>

Question 519

If a manager requires greater return when risk increases, then he is said to be _____.

- A) risk-seeking
- B) risk-indifferent
- C) risk-averse
- D) risk-aware

Answer: <https://biology-forums.com/index.php?topic=576372>

Question 520

A beach house in Southern California now costs \$350,000. Inflation is expected to cause this price to increase at 5 percent per year over the next 20 years before Eric and Karinna retire from successful careers in commercial art. How large an equal annual end-of-year deposit must be made into an account paying an annual rate of interest of 13 percent in order to buy the beach house upon retirement?

- A) \$11,472
- B) \$4,323
- C) \$79,977
- D) \$17,350

Answer: <https://biology-forums.com/index.php?topic=575895>

Question 521

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ more financial leverage than an otherwise equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577096>

Question 522

Which of the following is true of leverage?

- A) It refers to the effects that operating and financial fixed costs have on the returns that shareholders earn.
- B) It is associated with risks which are out of the control of managers.
- C) It includes the effect of operating fixed costs on the returns of shareholders and not the financial fixed costs.
- D) It is used to evaluate the profitability associated with various levels of sales.

Answer: <https://biology-forums.com/index.php?topic=576981>

Question 523

The cost of borrowing through the sale of commercial paper is typically _____ the prime bank loan rate.

- A) lower than
- B) the same as
- C) unrelated to
- D) higher than

Answer: <https://biology-forums.com/index.php?topic=577702>

Question 524

If a corporation has an average tax rate of 40 percent, the approximate, annual, after-tax cost of debt for a 15-year, 12 percent, \$1,000 par value bond, selling at \$950 is _____.

- A) 10 percent
- B) 10.6 percent
- C) 7.7 percent
- D) 6.0 percent

Answer: <https://biology-forums.com/index.php?topic=576576>

Question 525

When a firm undertakes a merger to improve its sources and supply of raw materials, this is an example of a _____.

- A) financial merger
- B) hostile takeover
- C) divestiture
- D) strategic merger

Answer: <https://biology-forums.com/index.php?topic=577988>

Question 526

A(n) _____ is an annuity with an infinite life making continual annual payments.

- A) amortized loan
- B) principal
- C) perpetuity
- D) APR

Answer: <https://biology-forums.com/index.php?topic=575802>

Question 527

A(n) _____ is hired by a firm to find prospective buyers for its new stock or bond issue.

- A) securities analyst
- B) trust officer
- C) commercial loan officer
- D) investment banker

Answer: <https://biology-forums.com/index.php?topic=576265>

Question 528

In the ABC system of inventory management, the _____ method or system is appropriate for managing B items.

- A) basic economic order quantity
- B) materials requirement planning

- C) two-bin
- D) just-in-time

Answer: <https://biology-forums.com/index.php?topic=577422>

Question 529

Joe Manufacturing uses 2,400 units of a product per year on a continuous basis. The product carrying costs are \$60 per year and ordering costs are \$250 per order. It takes 20 days to receive a shipment after an order is placed and the firm requires a safety stock of 8 days of usage in inventory.

- (a) Calculate the economic order quantity (round up to the nearest whole unit.)
- (b) Calculate the total cost per year to order and carry this item.
- (c) Its supplier has notified Joe that if Joe increases its order quantity by 58 units they will give it a discount. Calculate the dollar discount that the suppliers will have to give Joe Manufacturing to result in a net benefit to the company.

Answer: <https://biology-forums.com/index.php?topic=577442>

Question 530

If one borrows \$1,000 at 8 percent interest on a discount basis, the effective rate of interest is 7.2 percent.

Answer: <https://biology-forums.com/index.php?topic=577647>

Question 531

Holding risk constant, the implementation of projects with a rate of return above the cost of capital will decrease the value of a firm, and vice versa.

Answer: <https://biology-forums.com/index.php?topic=576533>

Question 532

In theory, a firm's optimal capital structure is that which minimized the firm's overall cost of capital resulting in a maximization of the market value of a firm.

Answer: <https://biology-forums.com/index.php?topic=577132>

Question 533

Unsystematic risk can be eliminated through diversification.

Answer: <https://biology-forums.com/index.php?topic=576459>

Question 534

A treasurer is commonly responsible for handling _____.

- A) tax management
- B) corporate accounting
- C) investing surplus funds
- D) cost accounting

Answer: <https://biology-forums.com/index.php?topic=575293>

Question 535

Which of the following serves as an intermediary channeling the savings of individuals, businesses, and governments into loans and investments?

- A) financial institutions
- B) financial markets
- C) Securities and Exchange Commission
- D) OTC market

Answer: <https://biology-forums.com/index.php?topic=575353>

Question 536

The presence of contingent securities such as warrants and stock options affects the reporting of a firm's earnings per share.

Answer: <https://biology-forums.com/index.php?topic=577817>

Question 537

A controller administers a firm's credit policy by analyzing or managing the evaluation of credit applications, extending credit, and monitoring and collecting accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=575217>

Question 538

In the Gordon model, the value of a common stock is the _____.

- A) net value of all assets which are liquidated for their exact accounting value

- B) actual amount each common stockholder would expect to receive if the firm's assets are sold
C) present value of a non-growing dividend stream
D) present value of a constant growing dividend stream

Answer: <https://biology-forums.com/index.php?topic=576297>

Question 539

A _____ may result in the expansion of a firm's operations in an existing product line and elimination of a competitor.

- A) congeneric merger
B) conglomerate merger
C) horizontal merger
D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578010>

Question 540

When a firm initiates or increases a cash discount, the net effect on the accounts receivable investment is difficult to determine because the nondiscount takers paying earlier will reduce the accounts receivable investment, while the new customer accounts will increase this investment.

Answer: <https://biology-forums.com/index.php?topic=577490>

Question 541

The purpose of the restrictive debt covenant that limits the distribution of profits to shareholders is to _____.

- A) assure the lender that additional borrowing is constrained or may be subordinated to the original loan
B) limit the amount of fixed-payment obligations
C) ensure a cash shortage does not cause an inability to meet current obligations
D) avoid default of payments to bondholders

Answer: <https://biology-forums.com/index.php?topic=576025>

Question 542

The liquidation value per share of common stock is the amount per share of common stock that would be received if all of a firm's assets were sold for their accounting value and the proceeds remaining were divided among common stockholders.

Answer: <https://biology-forums.com/index.php?topic=576322>

Question 543

The nominal rate of interest is the actual rate of interest charged by the supplier of funds and paid by demander.

Answer: <https://biology-forums.com/index.php?topic=575945>

Question 544

Duration measures the sensitivity of a bond's prices to changing interest rates.

Answer: <https://biology-forums.com/index.php?topic=576117>

Question 545

The output of simulation provides an excellent basis for decision making since it allows the decision maker to view a continuum of risk-return trade-offs rather than a single-point estimate.

Answer: <https://biology-forums.com/index.php?topic=576894>

Question 546

A discount loan is a loan on which interest is paid in advance by deducting it from the loan so that the borrower actually receives less money than is requested.

Answer: <https://biology-forums.com/index.php?topic=577637>

Question 547

_____ is one of the primary responsibilities of a financial manager.

- A) Monitoring quarterly tax payments
B) Analyzing budget and performance reports
C) Determining the audit policy
D) Preparing income statements

Answer: <https://biology-forums.com/index.php?topic=575305>

Question 548

Firm ABC had operating profits of \$100,000, taxes of \$17,000, interest expense of \$34,000, and preferred dividends of \$5,000. What was the firm's net profit after taxes?

- A) \$66,000
- B) \$49,000
- C) \$44,000
- D) \$83,000

Answer: <https://biology-forums.com/index.php?topic=575494>

Question 549

A letter written by a company's bank to the company's foreign supplier, stating that the bank will guarantee payment of an invoiced amount if all the underlying agreements are met is called _____.

- A) a letter of invoice
- B) a letter of intent
- C) a letter of credit
- D) commercial paper

Answer: <https://biology-forums.com/index.php?topic=577707>

Question 550

A loan that is usually a one-time loan made to a borrower who needs funds for a specific purpose for a short period is called a _____.

- A) term loan
- B) bill of exchange
- C) mortgage loan
- D) single-payment note

Answer: <https://biology-forums.com/index.php?topic=577661>

Question 551

The various causes that increase the chances of business failures are current ratio of 1.33, solvency ratio of greater than 20%, and rapid decrease in days' sales outstanding.

Answer: <https://biology-forums.com/index.php?topic=578119>

Question 552

Karina's Caribbean Foods had total assets as recorded on its balance sheet are \$1,500,000. What is the value of the Karina's common stock if it has \$950,000 in liabilities, and 7,500 shares of common stock outstanding?

Answer: <https://biology-forums.com/index.php?topic=576339>

Question 553

At year end, Tangshan China Company balance sheet showed total assets of \$60 million, total liabilities (including preferred stock) of \$45 million, and 1,000,000 shares of common stock outstanding. Next year, Tangshan is projecting that it will have net income of \$1.5 million. If the average P/E multiple in Tangshan's industry is 15, what should be the price of Tangshan's stock?

- A) \$15.00
- B) \$22.50
- C) \$52.50
- D) \$75.00

Answer: <https://biology-forums.com/index.php?topic=576335>

Question 554

A _____ occurs when the operations of the acquiring and target firms are combined in order to achieve economies and thereby cause the performance of the merged firm to exceed that of the pre-merged firm.

- A) financial merger
- B) hostile takeover
- C) operating merger
- D) strategic merger

Answer: <https://biology-forums.com/index.php?topic=577989>

Question 555

The ability to use the same sales and distribution channels to reach customers of both businesses is a benefit of _____.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578012>

Question 556

Please explain the difference between a sunk cost and an opportunity cost and give an example of each type of cost.

Answer: <https://biology-forums.com/index.php?topic=576830>

Question 557

Tangshan Coal Inc. just issued a 10 percent, 25-year bond with a \$1,000 par value that pays interest semiannually.

- (a) How much can the investor expect in annual interest (in dollars)?
- (b) How much can the investor expect in interest every six months (in dollars)?
- (c) How much can the investor expect in par value at the end of the 25th year?

Answer: <https://biology-forums.com/index.php?topic=576145>

Question 558

A trust receipt inventory loan is an arrangement in which the lender receives control of the pledged inventory collateral, which is stored by a designated agent.

Answer: <https://biology-forums.com/index.php?topic=577746>

Question 559

A trustee is a paid party representing the bond issuer in the bond indenture.

Answer: <https://biology-forums.com/index.php?topic=576001>

Question 560

Common stockholders expect to earn a return by receiving _____.

- A) semiannual interest
- B) fixed periodic payments
- C) dividends
- D) annual interest

Answer: <https://biology-forums.com/index.php?topic=576250>

Question 561

The operating cycle is the recurring transition of a firm's working capital from cash to inventories and inventories to receivables and back to cash.

Answer: <https://biology-forums.com/index.php?topic=577322>

Question 562

Earnings per share represents amount earned during the period on each outstanding share of common stock.

Answer: <https://biology-forums.com/index.php?topic=575452>

Question 563

One of the main goals of divestiture is _____.

- A) expanding operations
- B) economies of scale
- C) employee stock option
- D) raising funds

Answer: <https://biology-forums.com/index.php?topic=578048>

Question 564

A takeover target's management will not support a proposed takeover due to a very high tender offer.

Answer: <https://biology-forums.com/index.php?topic=577963>

Question 565

The economic order quantity (EOQ) is the order quantity which minimizes _____.

- A) the order cost per order
- B) the total inventory costs
- C) the carrying costs per unit per period
- D) order quantity in units

Answer: <https://biology-forums.com/index.php?topic=577430>

Question 566

CAFTA is _____.

- A) a treaty establishing free trade and open markets between Europe and five Central American Countries
- B) a major South American trading bloc that includes countries that account for more than half of total Latin American GDP
- C) a significant economic force currently made up of 28 nations with a population of more than 500 million that permits free trade within the countries that make up this group
- D) a trade agreement signed in 2003—2004 by the United States, the Dominican Republic, and five Central American countries

Answer: <https://biology-forums.com/index.php?topic=578172>

Question 567

Which of the following is true of a tender offer?

- A) It is another form of put option.
- B) The management of the target company has the exclusive right to accept the offer.
- C) The target firm may take defensive tactics to ward off the offer.
- D) It facilitates negotiations for an acquisition.

Answer: <https://biology-forums.com/index.php?topic=578110>

Question 568

War, inflation, and the condition of the foreign markets are all examples of _____.

- A) business specific risk
- B) nondiversifiable risk
- C) internal risk
- D) unsystematic risk

Answer: <https://biology-forums.com/index.php?topic=576474>

Question 569

Strikes, lawsuits, regulatory actions, or the loss of a key account are all examples of _____.

- A) diversifiable risk
- B) market risk
- C) economic risk
- D) systematic risk

Answer: <https://biology-forums.com/index.php?topic=576473>

Question 570

The percent-of-sales method to prepare a pro forma income statement assumes a firm has no fixed costs. Therefore, the use of the past cost and expense ratios generally tends to _____ profits when sales are increasing.

- A) accurately predict
- B) overstate
- C) understate
- D) have no effect on

Answer: <https://biology-forums.com/index.php?topic=575756>

Question 571

A firm has just ended its calendar year making a sale in the amount of \$150,000 of merchandise purchased during the year at a total cost of \$112,500. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are _____.

- A) \$0 and \$150,000, respectively
- B) \$37,500 and -\$150,000, respectively
- C) \$37,500 and -\$112,500, respectively
- D) \$150,000 and \$112,500, respectively

Answer: <https://biology-forums.com/index.php?topic=575304>

Question 572

Calculate the change in the key balance sheet accounts between 2014 and 2015 and classify each as a source (S), a use (U), or neither (N), and indicate which type of cash flow it is: an operating cash flow (O), and investment cash flow (I) or a financing cash flow (F).

ABC Corp.

Balance Sheet Changes and Classification
of Key Accounts between 2014 and 2015

Answer: <https://biology-forums.com/index.php?topic=575690>

Question 573

Net present value profiles are most useful when selecting among independent projects.

Answer: <https://biology-forums.com/index.php?topic=576775>

Question 574

Unsystematic risk is the relevant portion of an asset's risk attributable to market factors that affect all firms.

Answer: <https://biology-forums.com/index.php?topic=576460>

Question 575

Even though a business firm can be viewed as a portfolio of assets, firms are not rewarded for selecting a diversified portfolio of assets because investors can more efficiently diversify the risk on their own.

Answer: <https://biology-forums.com/index.php?topic=576927>

Question 576

Higher the value of the times interest earned ratio, higher is the proportion of the firm's interest income compared to its contractual interest payments.

Answer: <https://biology-forums.com/index.php?topic=575585>

Question 577

A beta coefficient of +1 represents an asset that _____.

- A) is more responsive than the market portfolio
- B) has the same response as the market portfolio
- C) is less responsive than the market portfolio
- D) is unaffected by market movement

Answer: <https://biology-forums.com/index.php?topic=576475>

Question 578

Which security (X or Y) in Table 8.3 has the least total risk? Which has the least systematic risk?

- A) X; X
- B) X; Y
- C) Y; X
- D) Y; Y

Answer: <https://biology-forums.com/index.php?topic=576496>

Question 579

Combining uncorrelated assets can reduce risk—not as effectively as combining negatively correlated assets, but more effectively than combining positively correlated assets.

Answer: <https://biology-forums.com/index.php?topic=576437>

Question 580

Convertible bonds are normally _____.

- A) debentures
- B) income bonds
- C) zero coupon bonds
- D) mortgage bonds

Answer: <https://biology-forums.com/index.php?topic=576082>

Question 581

Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses, and government.

Answer: <https://biology-forums.com/index.php?topic=575213>

Question 582

In response to the stock market's reaction to its dividend policy, the Nico's Toy Company has decided to increase its dividend payment at a rate of 4 percent per year. The firm's most recent dividend is \$3.25 and the required rate of interest is 9 percent. What is the maximum you would be willing to pay for a share of the stock?

Answer: <https://biology-forums.com/index.php?topic=576311>

Question 583

Current U.S. tax laws require the separation of financial statements of subsidiaries and the operating results for some subsidiaries are excluded from the parent entirely for some countries such as China and India.

Answer: <https://biology-forums.com/index.php?topic=578179>

Question 584

The total leverage measures the combined effect of operating and financial leverage on a firm's risk.

Answer: <https://biology-forums.com/index.php?topic=577030>

Question 585

Weights that use accounting values to measure the proportion of each type of capital in a firm's financial structure are called book value weights.

Answer: <https://biology-forums.com/index.php?topic=576645>

Question 586

The levels of fixed-cost assets and funds that management selects affect the variability of returns.

Answer: <https://biology-forums.com/index.php?topic=576961>

Question 587

In giving up a cash discount, the amount of the discount that is given up is the interest being paid by a firm to keep its money by delaying payment for a number of days.

Answer: <https://biology-forums.com/index.php?topic=577590>

Question 588

Tangshan Mining has 100,000 shares outstanding and just declared a 3-for-2 stock split. Before the announcement, the firm's shares were trading at \$50.00 per share. After the stock split, the firm's shares should trade at _____ per share.

- A) \$33.33
- B) \$66.67
- C) \$75.00
- D) \$100.00

Answer: <https://biology-forums.com/index.php?topic=577290>

Question 589

Which of the following increases the chances of business failures?

- A) current ratio of 2:1
- B) decreasing days' sales outstanding
- C) solvency ratio of greater than 20%
- D) corporate maturity

Answer: <https://biology-forums.com/index.php?topic=578118>

Question 590

The future value of an annuity due is always greater than the future value of an otherwise identical ordinary annuity for interest rates greater than zero.

Answer: <https://biology-forums.com/index.php?topic=575797>

Question 591

The Sarbanes-Oxley Act of 2002 established the Private Company Accounting Oversight Board (PCAOB) which is a for-profit corporation that oversees CEOs of public corporations.

Answer: <https://biology-forums.com/index.php?topic=575443>

Question 592

At a base sales level of \$400,000, a firm has a degree of operating leverage of 2 and a degree of financial leverage of 1.5. The firm's degree of total leverage is _____.

- A) 3.5
- B) 3.0
- C) 0.5
- D) 1.3

Answer: <https://biology-forums.com/index.php?topic=577056>

Question 593

A merger occurs when two or more firms are combined to form a completely new corporation.

Answer: <https://biology-forums.com/index.php?topic=577949>

Question 594

The simplest type of probability distribution is a _____.

- A) bar chart
- B) normal distribution
- C) lognormal distribution
- D) Poisson distribution

Answer: <https://biology-forums.com/index.php?topic=576401>

Question 595

The present value of \$100 to be received 10 years from today, assuming an opportunity cost of 9 percent, is _____.

- A) \$236
- B) \$699
- C) \$ 42
- D) \$ 75

Answer: <https://biology-forums.com/index.php?topic=575782>

Question 596

One of the limitations of breakeven analysis is its short-term time horizon. A large outlay in the current financial period could significantly raise the firm's breakeven point, while the benefits may occur over a period of years.

Answer: <https://biology-forums.com/index.php?topic=576979>

Question 597

Strategic financial plans are planned long-term financial actions and the anticipated financial impact of those actions.

Answer: <https://biology-forums.com/index.php?topic=575691>

Question 598

With regard to dividend payments, which of the following is included in the contractual constraints imposed by loan agreements?

- A) limiting the payment to suppliers
- B) limiting the percentage of earnings that can be paid out in dividends
- C) sustaining a constant dividend payout ratio
- D) making fixed payment to equityholders

Answer: <https://biology-forums.com/index.php?topic=577243>

Question 599

What is the highest effective rate attainable with a 12 percent nominal rate?

- A) 12.00%
- B) 12.55%
- C) 12.75%
- D) 12.95%

Answer: <https://biology-forums.com/index.php?topic=575860>

Question 600

A firm has determined its cost of each source of capital and optimal capital structure, which is composed of the following sources and current market value proportions:

Other things remaining constant, if the firm were to shift toward a capital structure with _____ the weighted average cost of capital will be higher.

- A) 45% long-term debt, 40% common stock, and 15% preferred stock
- B) 60% long-term debt, 20% common stock, and 20% preferred stock
- C) 20% long-term debt, 60% common stock, and 20% preferred stock
- D) 60% long-term debt, 30% common stock, and 10% preferred stock

Answer: <https://biology-forums.com/index.php?topic=576652>

Question 601

The percent-of-sales method of developing a pro forma income statement forecasts sales and other line items as a _____.

- A) percentage of projected sales

- B) percentage of average sales over a period
- C) percentage of projected total assets
- D) percentage of average total assets over a period

Answer: <https://biology-forums.com/index.php?topic=575754>

Question 602

Which of the following is the best measure to ensure that management decisions are in the best interest of the stockholders?

- A) fire managers who are inefficient
- B) remove management's perquisites
- C) tie management compensation to the performance of the company's common stock price
- D) tie management compensation to the level of dividend per share

Answer: <https://biology-forums.com/index.php?topic=575339>

Question 603

Which of the following is an example of a firm's stakeholder?

- A) suppliers
- B) Federal reserve
- C) media
- D) competitors

Answer: <https://biology-forums.com/index.php?topic=575276>

Question 604

The correlation coefficient is an index of the degree of movement of an asset's return in response to a change in the risk-free asset return.

Answer: <https://biology-forums.com/index.php?topic=576506>

Question 605

One of the key inputs to the final credit decision is a credit analyst's subjective judgment of a firm's creditworthiness since it can provide a better feel of a firm's operation than any quantitative figures.

Answer: <https://biology-forums.com/index.php?topic=577452>

Question 606

As randomly selected securities are combined to create a portfolio, the _____ risk of the portfolio decreases until 10 to 20 securities are included. The portion of the risk eliminated is _____ risk, while that remaining is _____ risk.

- A) diversifiable; nondiversifiable; total
- B) relevant; irrelevant; total
- C) total; diversifiable; nondiversifiable
- D) total; nondiversifiable; diversifiable

Answer: <https://biology-forums.com/index.php?topic=576489>

Question 607

A firm has an outstanding issue of 1,000 shares of preferred stock with a \$100 par value and an 8 percent annual dividend. The firm also has 5,000 shares of common stock outstanding. If the stock is cumulative and the board of directors has passed the preferred dividend for the prior two years, how much must the preferred stockholders be paid prior to paying dividends to common stockholders at the end of third year?

- A) \$8,000
- B) \$16,000
- C) \$24,000
- D) \$25,000

Answer: <https://biology-forums.com/index.php?topic=576220>

Question 608

The _____ from the sale of a security are the funds actually received from the sale after _____.

- A) gross proceeds; adding the after-tax costs
- B) gross proceeds; reducing the flotation costs
- C) net proceeds; reducing the flotation costs
- D) net proceeds; adding the after-tax costs

Answer: <https://biology-forums.com/index.php?topic=576570>

Question 609

Controlled disbursing _____.

- A) reduces a firm's average collection period
- B) is a popular technique for effectively managing inventory to keep its level low
- C) is a popular technique for increasing payment float
- D) reduces a firm's average payment period

Answer: <https://biology-forums.com/index.php?topic=577551>

Question 610

Appropriate collateral for a loan secured under a trust receipt inventory loan is _____.

- A) drill bits
- B) pencils
- C) vehicles
- D) bolts

Answer: <https://biology-forums.com/index.php?topic=577751>

Question 611

A firm is analyzing two possible capital structures—30 and 50 percent debt ratios. The firm has total assets of \$5,000,000 and common stock valued at \$50 per share. The firm has a marginal tax rate of 40 percent on ordinary income. If the interest rate on debt is 7 percent and 9 percent for the 30 percent and the 50 percent debt ratios, respectively, the amount of interest on the debt under each of the capital structures being considered would be _____.

- A) 30 percent debt ratio: \$105,000 and 50 percent debt ratio: \$225,000
- B) 30 percent debt ratio: \$245,000 and 50 percent debt ratio: \$225,000
- C) 30 percent debt ratio: \$105,000 and 50 percent debt ratio: \$250,000
- D) 30 percent debt ratio: \$135,000 and 50 percent debt ratio: \$175,000

Answer: <https://biology-forums.com/index.php?topic=577142>

Question 612

A weakness of the percent-of-sales method of preparing a pro forma income statement is _____.

- A) that it forecasts income and then expresses the various income statement items as percentages of projected income.
- B) the assumption that the firm faces linear total revenue and total operating cost functions
- C) the assumption that the firm's past financial condition is an accurate predictor of its future
- D) the difficulty faced in calculation and preparation of such statements

Answer: <https://biology-forums.com/index.php?topic=575765>

Question 613

The goal of working capital management is to _____.

- A) achieve a balance between short-term and long-term liabilities so that they add to the achievement of a firm's overall goals
- B) achieve a balance between a firm's non-current assets and non-current liabilities
- C) achieve a balance between profitability and risk that contributes positively to a firm's value
- D) achieve a balance between short-term and long-term assets so that they add to the achievement of a firm's overall goals

Answer: <https://biology-forums.com/index.php?topic=577307>

Question 614

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, the maximum rate of taxation on dividends received by shareholders was set at _____.

- A) 18%
- B) 20%
- C) 25%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=577198>

Question 615

A major impetus fueling financial mergers during the 1980s was _____.

- A) high interest rates
- B) high tax rates
- C) high cash balances that could be utilized for takeovers
- D) ready availability of junk bond financing

Answer: <https://biology-forums.com/index.php?topic=577996>

Question 616

The basic shortcoming of EBIT-EPS analysis is that this model focuses on the maximization of earnings rather than on the maximization of owner

wealth as reflected in a firm's stock price.

Answer: <https://biology-forums.com/index.php?topic=577150>

Question 617

What is the IRR for the following project if its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$1,700,000 in year 3, and \$1,300,000 in year 4?

- A) 15.57%
- B) 0.00%
- C) 13.57%
- D) 12.25%

Answer: <https://biology-forums.com/index.php?topic=576771>

Question 618

The difference by which the required discount rate exceeds the risk-free rate is called the _____.

- A) excess return
- B) risk premium
- C) inflation premium
- D) maturity premium

Answer: <https://biology-forums.com/index.php?topic=576931>

Question 619

Generally accepted accounting principles are authorized by the Financial Accounting Standards Board (FASB).

Answer: <https://biology-forums.com/index.php?topic=575440>

Question 620

The purpose of the restrictive debt covenant that prohibits the sale of accounts receivable is to _____.

- A) assure the lender that additional borrowing is constrained
- B) limit the amount of fixed-payment obligations
- C) limit the realization of current assets to cash
- D) limit the payment of annual cash dividends

Answer: <https://biology-forums.com/index.php?topic=576022>

Question 621

A stock purchase warrant gives the holder the right to purchase a certain number of shares of common stock at a specified price over a certain period of time.

Answer: <https://biology-forums.com/index.php?topic=577885>

Question 622

Treasury stock refers to the _____.

- A) sale of stock at a price greater than the par value
- B) stock issued by the US government
- C) repurchase of outstanding stock
- D) authorization of additional shares of stock by the board of directors

Answer: <https://biology-forums.com/index.php?topic=576268>

Question 623

At the end of the term of the lease agreement, the terminal value of an asset, if any, is realized by the lessee.

Answer: <https://biology-forums.com/index.php?topic=577786>

Question 624

The appeal of the IRR technique is due to the general disposition of business people to think in terms of rates of return rather than actual dollar returns.

Answer: <https://biology-forums.com/index.php?topic=576796>

Question 625

Operating financial plans are planned short-term financial actions and the anticipated financial impact of those actions.

Answer: <https://biology-forums.com/index.php?topic=575693>

Question 626

A firm is analyzing two possible capital structures—30 and 50 percent debt ratios. The firm has total assets of \$5,000,000 and common stock valued at \$50 per share. The firm has a marginal tax rate of 40 percent on ordinary income. The number of common shares outstanding for each of the capital structures would be _____.

- A) 30 percent debt ratio: 30,000 shares and 50 percent debt ratio: 50,000 shares
- B) 30 percent debt ratio: 50,000 shares and 50 percent debt ratio: 70,000 shares
- C) 30 percent debt ratio: 70,000 shares and 50 percent debt ratio: 100,000 shares
- D) 30 percent debt ratio: 70,000 shares and 50 percent debt ratio: 50,000 shares

Answer: <https://biology-forums.com/index.php?topic=577141>

Question 627

The Steel Works, Inc. is required to carry a minimum of 40 days' raw steel, which is 250 tons. It takes 15 days between order and delivery. At what level of steel would Steel Works reorder?

- A) 3,750 tons
- B) 600 tons
- C) 667 tons
- D) 344 tons

Answer: <https://biology-forums.com/index.php?topic=577434>

Question 628

If the firm in Table 10.3 has a required payback of two years, it should _____.

- A) accept Project A and Project B
- B) accept Project A and reject Project B
- C) reject Project A and accept Project B
- D) reject both the projects

Answer: <https://biology-forums.com/index.php?topic=576801>

Question 629

Which of the following is a reason for a firm for repurchasing its shares?

- A) to diminish the shareholder value by increasing the number of shares outstanding and thereby raising earnings per share
- B) to help encourage a friendly takeover by increasing the number of publicly traded shares
- C) to make shares available for stock option plans
- D) to make shares available for cash dividends

Answer: <https://biology-forums.com/index.php?topic=577192>

Question 630

An internal sales forecast is based on the relationships that can be observed between a firm's sales and certain key economic indicators such as the gross domestic product, new housing starts, or disposable personal income.

Answer: <https://biology-forums.com/index.php?topic=575710>

Question 631

The future value of a \$2,000 annuity due deposited at 8 percent compounded annually for each of the next 10 years is _____.

- A) \$28,974
- B) \$31,291
- C) \$14,494
- D) \$13,420

Answer: <https://biology-forums.com/index.php?topic=575806>

Question 632

The payback period of a project that costs \$1,000 initially and promises after-tax cash inflows of \$300 each year for the next three years is 0.333 years.

Answer: <https://biology-forums.com/index.php?topic=576711>

Question 633

New investments must be considered in light of their impact on the risk and return of the portfolio of assets because the risk of any single proposed asset investment is not independent of other assets.

Answer: <https://biology-forums.com/index.php?topic=576417>

Question 634

The specific cost of each source of long-term financing is based on _____ and _____ costs.

- A) before-tax; historical
- B) after-tax; historical
- C) before-tax; book value
- D) after-tax; current

Answer: <https://biology-forums.com/index.php?topic=576574>

Question 635

Which of the following affects business risk?

- A) revenue stability
- B) financial leases
- C) operating leverage
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=577105>

Question 636

If the present value of a perpetual income stream is increasing, the discount rate must be _____.

- A) increasing
- B) decreasing
- C) changing unpredictably
- D) increasing proportionally

Answer: <https://biology-forums.com/index.php?topic=575811>

Question 637

As per dividend relevance theory, current dividend payments are believed to reduce investor's uncertainty, thereby—all else being equal—placing a lower value on a firm's stock after its payment.

Answer: <https://biology-forums.com/index.php?topic=577209>

Question 638

Factoring accounts receivable is relatively an expensive source of unsecured short-term funds.

Answer: <https://biology-forums.com/index.php?topic=577728>

Question 639

A major decision confronting a business firm when purchasing marketable securities involves a trade-off between the opportunity to earn a return on idle funds during the holding period and the brokerage costs associated with the purchase and sale of marketable securities.

Answer: <https://biology-forums.com/index.php?topic=577533>

Question 640

In general, most corporate capital gains are taxed at _____ tax rate.

- A) the average
- B) the regular corporate
- C) the historic
- D) a 30 percent

Answer: <https://biology-forums.com/index.php?topic=575429>

Question 641

The statement of cash flows reconciles the net income earned during a given year, and any cash dividends paid, with the change in retained earnings between the start and end of that year.

Answer: <https://biology-forums.com/index.php?topic=575459>

Question 642

When considering a firm's financial decision alternative, financial managers should accept only those actions that are expected to maximize shareholder value.

Answer: <https://biology-forums.com/index.php?topic=575251>

Question 643

Because a security is first sold with a conversion price above the current market price of a firm's stock, conversion is initially not attractive.

Answer: <https://biology-forums.com/index.php?topic=577826>

Question 644

Cash planning involves the preparation of a firm's cash budget. Without adequate cash—regardless of the level of profits—any firm could fail.

Answer: <https://biology-forums.com/index.php?topic=575714>

Question 645

The conversion of current assets _____.

- A) from cash to receivables to inventory provides the cash used to pay non-current liabilities
- B) from inventory to receivables to marketable securities provides the cash used to buy plant and equipment
- C) from inventory to receivables to cash provides the cash used to pay current liabilities
- D) from cash to receivables to inventory provides the cash used to repurchase stock

Answer: <https://biology-forums.com/index.php?topic=577311>

Question 646

The risk of the conservative funding requirements is low because of its high level of net working capital, and the fact that the strategy does not require a firm to use any of its limited short-term borrowing capacity.

Answer: <https://biology-forums.com/index.php?topic=577341>

Question 647

Other factors remaining constant, an increase in the average collection period will result in _____.

- A) an increase in the operating cycle
- B) an increase in the average payment period
- C) a decrease in the operating cycle
- D) a decrease in the average payment period

Answer: <https://biology-forums.com/index.php?topic=577361>

Question 648

An operating lease is noncancellable and obligates the lessee to make payments for the use of an asset over a predefined period of time.

Answer: <https://biology-forums.com/index.php?topic=577772>

Question 649

Behavioral approaches for dealing with risk include scenario analysis and simulation.

Answer: <https://biology-forums.com/index.php?topic=576880>

Question 650

In general, the greater a firm's operating leverage, the higher its business risk.

Answer: <https://biology-forums.com/index.php?topic=577074>

Question 651

Motive for merging includes _____.

- A) increased financial leverage
- B) increased common stock outstanding
- C) increased provision for doubtful accounts
- D) increased liquidity

Answer: <https://biology-forums.com/index.php?topic=577998>

Question 652

The key dimension of credit selection which analyzes an applicant's record of meeting past obligations is _____.

- A) collateral
- B) capacity
- C) character
- D) capital

Answer: <https://biology-forums.com/index.php?topic=577463>

Question 653

The use of a dollar breakeven point is important when a firm has more than one product, especially when each product is selling at a different price.

Answer: <https://biology-forums.com/index.php?topic=576974>

Question 654

Although differences in the magnitude and timing of cash flows explain conflicting rankings under the NPV and IRR techniques, the underlying cause is the implicit assumption concerning the reinvestment of intermediate cash inflows.

Answer: <https://biology-forums.com/index.php?topic=576788>

Question 655

A firm can reduce its cash conversion cycle by _____.

- A) increasing the average age of inventory
- B) increasing the average collection period
- C) increasing the operating cycle
- D) increasing the average payment period

Answer: <https://biology-forums.com/index.php?topic=577358>

Question 656

A single key ratio of a firm provides all the information required to judge the overall performance of the firm.

Answer: <https://biology-forums.com/index.php?topic=575517>

Question 657

In the statement of cash flows, cash flows from operating activities are cash flows directly related to purchase and sale of fixed assets.

Answer: <https://biology-forums.com/index.php?topic=575652>

Question 658

For an investor who plans to purchase a bond maturing in one year, the primary consideration should be _____.

- A) retained earnings
- B) face value
- C) yield to maturity
- D) net income

Answer: <https://biology-forums.com/index.php?topic=576153>

Question 659

Which of the following acts regulates the primary market in which securities are originally issued to the public?

- A) The Securities Act of 1933
- B) The Gramm-Leach-Bliley Act
- C) The Securities Exchange Act of 1934
- D) The Glass-Steagall Act

Answer: <https://biology-forums.com/index.php?topic=575415>

Question 660

When issuing a(n) _____ the issuer can annually deduct the current year's interest accrual without having to actually pay the interest until the bond matures.

- A) junk bond
- B) zero coupon bond
- C) floating rate bond
- D) extendible note

Answer: <https://biology-forums.com/index.php?topic=576089>

Question 661

In a voluntary settlement, each creditor will be paid only 45 cents on a dollar immediately. This is an example of _____.

- A) a composition
- B) a combination of a composition and extension
- C) an extension
- D) a liquidation

Answer: <https://biology-forums.com/index.php?topic=578127>

Question 662

The value of zero for beta coefficient of the risk-free asset reflects not only its absence of risk but also the fact that the asset's return is unaffected by movements in the market return.

Answer: <https://biology-forums.com/index.php?topic=576509>

Question 663

The steeper the slope of the security market line, the greater the degree of risk aversion.

Answer: <https://biology-forums.com/index.php?topic=576508>

Question 664

The closer the base sales level used is to the operating breakeven point, the smaller the operating leverage.

Answer: <https://biology-forums.com/index.php?topic=577023>

Question 665

In a voluntary settlement, each creditor will be paid 20 cents on a dollar in 120 days. The remaining 80 cents on a dollar will be paid within an additional 60 days. This is an example of _____.

- A) a composition
- B) a combination of a composition and extension
- C) an extension
- D) a liquidation

Answer: <https://biology-forums.com/index.php?topic=578126>

Question 666

Because the degree of total leverage is multiplicative and not additive, when a firm has very high operating leverage it can moderate its total risk by _____.

- A) increasing sales
- B) using a higher level of financial leverage
- C) increasing EBIT
- D) using a lower level of financial leverage

Answer: <https://biology-forums.com/index.php?topic=577057>

Question 667

Lenders recognize that holding collateral can reduce losses if the borrower defaults, but the presence of collateral has no impact on the risk of default.

Answer: <https://biology-forums.com/index.php?topic=577713>

Question 668

Stock dividends are _____.

- A) taxable at a higher level than dividend taxes
- B) taxable at a lower level than dividend taxes
- C) non taxable
- D) are taxable only to the shareholders

Answer: <https://biology-forums.com/index.php?topic=577275>

Question 669

The ratio of exchange in market price indicates the market price per share of an acquiring firm paid for each dollar of market price per share of the target firm.

Answer: <https://biology-forums.com/index.php?topic=578053>

Question 670

Total security risk is attributable to firm-specific events, such as strikes, lawsuits, regulatory actions, or the loss of a key account.

Answer: <https://biology-forums.com/index.php?topic=576453>

Question 671

Reverse stock splits are initiated when a stock is selling at a very low price to appear respectable.

Answer: <https://biology-forums.com/index.php?topic=577282>

Question 672

Since Treasury bills are issued in bearer form, they are considered to be virtually risk-free.

Answer: <https://biology-forums.com/index.php?topic=577529>

Question 673

A normal probability distribution is an asymmetrical distribution whose shape resembles a pyramid.

Answer: <https://biology-forums.com/index.php?topic=576392>

Question 674

Jia borrows \$50,000 at 10 percent annually compounded interest to be repaid in four equal annual installments. The actual end-of-year loan payment is _____.

- A) \$10,774
- B) \$12,500
- C) \$14,340
- D) \$15,773

Answer: <https://biology-forums.com/index.php?topic=575883>

Question 675

Ride World has estimated the market value of its assets to be \$1,250,000. What is the value of Ride World's common stock if it has \$900,000 in liabilities, \$50,000 in preferred stock, and 7,500 shares of common stock outstanding?

Answer: <https://biology-forums.com/index.php?topic=576340>

Question 676

Poor capital structure decisions can result in a high cost of capital, thereby making some unacceptable investments acceptable.

Answer: <https://biology-forums.com/index.php?topic=577064>

Question 677

Which of the following is a disadvantage of leasing from a lessee's perspective?

- A) capability of effectively depreciating land
- B) ability to avoid restrictive covenants that are normally part of a long-term loan
- C) benefit of the salvage value at the end of the term of the lease reverts to the lessor
- D) 100 percent debt financing

Answer: <https://biology-forums.com/index.php?topic=577809>

Question 678

Along's Fishing Products is analyzing the performance of its cash management. On average, the firm holds inventory for 65 days, pays its suppliers in 35 days, and collects its receivables in 15 days. The firm has a current annual outlay of \$1,960,000 on operating cycle investments. Along currently pays 10 percent for its financing. (Assume a 360-day year.)

- (a) Calculate the firm's cash conversion cycle.
- (b) Calculate the firm's operating cycle.
- (c) Calculate the daily expenditure and the firm's annual savings if the operating cycle is reduced by 15 days.

Answer: <https://biology-forums.com/index.php?topic=577406>

Question 679

The aggressive funding strategy is a strategy by which a firm finances its current assets with short-term funds and its fixed assets with long-term funds.

Answer: <https://biology-forums.com/index.php?topic=577333>

Question 680

The functional currency is the currency in which a business entity primarily generates and expends cash and in which its accounts are maintained.

Answer: <https://biology-forums.com/index.php?topic=578189>

Question 681

The contribution margin is defined as the percent of each sales dollar that remains after satisfying fixed operating costs.

Answer: <https://biology-forums.com/index.php?topic=576975>

Question 682

Pyramiding is an arrangement among holding companies wherein one company controls others, thereby causing an even greater magnification of earnings and losses.

Answer: <https://biology-forums.com/index.php?topic=578095>

Question 683

The constant growth model is an approach to dividend valuation that assumes that dividends grow at a constant rate indefinitely.

Answer: <https://biology-forums.com/index.php?topic=576286>

Question 684

A _____ gives the holder an option to purchase a certain number of shares of common stock at a specified price over a certain period of time.

- A) put option
- B) convertible bond
- C) stock purchase warrant
- D) repurchase agreement

Answer: <https://biology-forums.com/index.php?topic=577898>

Question 685

If the required return is greater than the coupon rate, a bond will sell at _____.

- A) par
- B) a discount
- C) a premium
- D) book value

Answer: <https://biology-forums.com/index.php?topic=5776140>

Question 686

Firms are able to reduce financing costs or increase the funds available for expansion by maximizing the amount of funds tied up in working capital.

Answer: <https://biology-forums.com/index.php?topic=577294>

Question 687

A firm plans to depreciate a five year asset in the next planning period. The statements that will be directly affected are the _____.

- A) pro forma income statement, pro forma balance sheet, and cash budget
- B) pro forma balance sheet, cash budget, and statement of retained earnings
- C) cash budget and pro forma balance sheet
- D) pro forma income statement and pro forma balance sheet

Answer: <https://biology-forums.com/index.php?topic=575751>

Question 688

A stock split commonly increases the stock's per share par value.

Answer: <https://biology-forums.com/index.php?topic=577280>

Question 689

The theory suggesting that for any given issuer, long-term interest rates tends to be higher than short-term rates is called _____.

- A) expectation hypothesis
- B) liquidity preference theory
- C) market segmentation theory
- D) interest parity theory

Answer: <https://biology-forums.com/index.php?topic=575980>

Question 690

The _____ represents a summary statement of a firm's financial position at a given point in time.

- A) income statement
- B) balance sheet
- C) statement of cash flows
- D) statement of retained earnings

Answer: <https://biology-forums.com/index.php?topic=575486>

Question 691

In finding the operating breakeven point, it is important to divide the cost of goods sold and operating expenses into fixed and variable operating costs.

Answer: <https://biology-forums.com/index.php?topic=576969>

Question 692

Construct the DuPont system of analysis using the following financial data for Key Wahl Industries and determine which areas of the firm need further analysis.

Key Financial Data

Answer: <https://biology-forums.com/index.php?topic=575624>

Question 693

Which of the following securities is a government issue?

- A) eurodollar deposits
- B) repurchase agreements
- C) certificate of deposits
- D) federal agency issues

Answer: <https://biology-forums.com/index.php?topic=577561>

Question 694

The return on an asset is the change in its value plus any cash distribution over a given period of time, expressed as a percentage of its ending value.

Answer: <https://biology-forums.com/index.php?topic=576350>

Question 695

A negative cash conversion cycle (CCC) means the average payment period (APP) exceeds the operating cycle (OC).

Answer: <https://biology-forums.com/index.php?topic=577327>

Question 696

The exercise price or option price of a warrant is normally set below the market price of the firm's stock at the time of issuance.

Answer: <https://biology-forums.com/index.php?topic=577887>

Question 697

Technical insolvency occurs when a firm's liabilities exceed the book value of its assets.

Answer: <https://biology-forums.com/index.php?topic=578115>

Question 698

In their simplest form, bonds are pure _____.

- A) debt
- B) equity
- C) hybrid security
- D) current assets

Answer: <https://biology-forums.com/index.php?topic=577764>

Question 699

Cash flows that could be realized from the best alternative use of an owned asset are called _____.

- A) incremental costs
- B) lost resale opportunities
- C) opportunity costs
- D) sunk costs

Answer: <https://biology-forums.com/index.php?topic=576829>

Question 700

A popular extension of materials requirement planning is manufacturing resource planning II, which integrates data from numerous areas such as finance, accounting, marketing, engineering, and manufacturing using a sophisticated computer system.

Answer: <https://biology-forums.com/index.php?topic=577411>

Question 701

A firm's credit selection is the process of determining the minimum requirements for extending credit to a customer.

Answer: <https://biology-forums.com/index.php?topic=577444>

Question 702

A firm has current after-tax earnings of \$1,000,000 and has declared a cash dividend of \$400,000. The firm's dividend payout ratio is _____.

- A) 2.5 percent
- B) 2.0 percent
- C) 4.0 percent
- D) 40 percent

Answer: <https://biology-forums.com/index.php?topic=577253>

Question 703

Rational buyers and sellers use their assessment of an asset's risk and return to determine its value. Relative to this concept, which of the following is true?

- A) To a buyer the asset's value represents the minimum price that he or she would pay to acquire it.
- B) To a seller the asset's value represents the maximum sale price.
- C) To a buyer the asset's value represents the maximum price that he or she would pay to acquire it.
- D) To a seller the asset's value represents the price at which he acquired the asset.

Answer: <https://biology-forums.com/index.php?topic=576287>

Question 704

Which of the following is true of conversion feature of a bond?

- A) It adds a degree of speculation to a bond issue, although the issue still maintains its value as a bond.
- B) It decreases the marketability and liquidity of a bond since conversion feature is perceived by the market as a pessimistic approach about the firm's future.
- C) It is analogous to the put option, since it gives the bondholders the option to sell the bonds at any time till maturity.
- D) It increases the cost of debt financing.

Answer: <https://biology-forums.com/index.php?topic=577839>

Question 705

The new financial analyst does not like the payback approach (Table 10.3) and determines that the firm's required rate of return is 15 percent. Based on IRR, his recommendation would be to _____.

- A) accept both the projects
- B) accept Project A and reject Project B
- C) reject Project A and accept Project B
- D) reject both the projects

Answer: <https://biology-forums.com/index.php?topic=576802>

Question 706

If the NPV is greater than the initial investment, a project should be rejected.

Answer: <https://biology-forums.com/index.php?topic=576744>

Question 707

An underwritten issue of common stock is one in which a firm purchases insurance to cover unexpected losses suffered by shareholders.

Answer: <https://biology-forums.com/index.php?topic=576244>

Question 708

One of the circumstances in which the Gordon growth valuation model for estimating the value of a share of stock should be used is _____.

- A) declining dividends
- B) an erratic dividend stream
- C) the lack of data on dividend payments
- D) a steady growth rate in dividends

Answer: <https://biology-forums.com/index.php?topic=576624>

Question 709

Which of the following provides savers with a secure place to invest funds and offer both individuals and companies loans to finance investments?

- A) investment banks
- B) securities exchanges
- C) mutual funds
- D) commercial banks

Answer: <https://biology-forums.com/index.php?topic=575355>

Question 710

In analyzing an applicant's creditworthiness, a credit manager typically gives primary attention to two of the five C's of credit—collateral and condition—since they represent the most basic requirements for extending credit to an applicant.

Answer: <https://biology-forums.com/index.php?topic=577451>

Question 711

Since preferred stock is a form of ownership, it has no maturity date.

Answer: <https://biology-forums.com/index.php?topic=576582>

Question 712

Ashley owns stock in a company which has consistently paid a growing dividend over the last five years. The first year Ashley owned the stock, she received \$1.71 per share and in the fifth year, she received \$2.89 per share. What is the growth rate of the dividends over the last five years?

- A) 7 percent
- B) 11 percent
- C) 12 percent
- D) 5 percent

Answer: <https://biology-forums.com/index.php?topic=575886>

Question 713

To sell a callable bond, the issuer must pay a higher interest rate than on an otherwise equivalent noncallable bond.

Answer: <https://biology-forums.com/index.php?topic=576036>

Question 714

Net fixed assets represent the difference between gross fixed assets and accumulated depreciation of fixed assets.

Answer: <https://biology-forums.com/index.php?topic=575453>

Question 715

_____ allow bondholders to purchase a certain number of shares of the firm's common stock at a specified price over a certain period of time.

- A) Call options
- B) Stock purchase warrants
- C) Debentures
- D) Put options

Answer: <https://biology-forums.com/index.php?topic=576064>

Question 716

Delta borrows \$20,000 from the bank. For a five-year loan, the bank requires annual end-of-year payments of \$4,878.05. The annual interest rate on the loan is _____.

- A) 6 percent
- B) 7 percent
- C) 8 percent
- D) 9 percent

Answer: <https://biology-forums.com/index.php?topic=575900>

Question 717

Target weights are either book value or market value weights based on actual historical capital structure proportions.

Answer: <https://biology-forums.com/index.php?topic=576648>

Question 718

If the coupon rate of a bond is equal to its required rate of return, then _____.

- A) the current value is not equal to par value
- B) the current value is equal to par value
- C) the maturity value is equal to par value
- D) the current value is equal to maturity value

Answer: <https://biology-forums.com/index.php?topic=576133>

Question 719

The increase in bad debts associated with tightening credit standards raises bad debt expenses and has a negative impact on profits.

Answer: <https://biology-forums.com/index.php?topic=577460>

Question 720

Business risk is the risk to a firm of being unable to cover operating costs.

Answer: <https://biology-forums.com/index.php?topic=577075>

Question 721

A lease arrangement has many more restrictive covenants than those that are normally included as part of a long-term loan.

Answer: <https://biology-forums.com/index.php?topic=577789>

Question 722

When a firm becomes bankrupt or is reorganized, the maximum claim of lessors against the corporation is three years of lease payments.

Answer: <https://biology-forums.com/index.php?topic=577787>

Question 723

The conversion ratio can be obtained by dividing the par value of the convertible by the conversion price.

Answer: <https://biology-forums.com/index.php?topic=577818>

Question 724

Hayley's Theatrical Supply is in the process of negotiating a line of credit with two local banks. The prime rate is currently 8 percent. The terms follow:

- (a) Calculate the effective interest rate of both banks.
- (b) Recommend which bank's line of credit Hayley's Theatrical Supply should accept.

Answer: <https://biology-forums.com/index.php?topic=577688>

Question 725

The money market is a market _____.

- A) that enables suppliers and demanders of long-term funds to make transactions
- B) which brings together suppliers and demanders of short-term funds
- C) where smaller, unlisted securities are traded
- D) where all derivatives are traded

Answer: <https://biology-forums.com/index.php?topic=575396>

Question 726

The term structure of interest rates is the relationship between _____.

- A) the present value of principal and coupon rate of the bonds
- B) the general expectation of inflation and nominal rate of return for bonds
- C) the general expectation of inflation and real rate of return for bonds
- D) the maturity and rate of return for bonds with similar level of risk

Answer: <https://biology-forums.com/index.php?topic=575976>

Question 727

The _____ is used by financial managers as a structure for dissecting a firm's financial statements to assess its financial condition.

- A) statement of cash flows
- B) DuPont system of analysis
- C) break-even analysis
- D) technical analysis

Answer: <https://biology-forums.com/index.php?topic=575611>

Question 728

Sunk costs are cash outlays that have already been made and therefore have no effect on the cash flows relevant to the current decision.

Answer: <https://biology-forums.com/index.php?topic=576819>

Question 729

The effective annual rate increases with increasing compounding frequency.

Answer: <https://biology-forums.com/index.php?topic=575847>

Question 730

Increased collection expenditures should reduce the investment in accounts receivable and bad debt expenses, increasing profits.

Answer: <https://biology-forums.com/index.php?topic=577494>

Question 731

Dan and Jia are newlyweds and have just purchased a condominium for \$70,000. Since the condo is very small, they hope to move into a single-family house in 5 years. How much will their condo worth in 5 years if inflation is expected to be 8 percent?

Answer: <https://biology-forums.com/index.php?topic=575793>

Question 732

Because risk premiums increase with increases in financial leverage, maximizing EPS does not assure owners' wealth maximization.

Answer: <https://biology-forums.com/index.php?topic=577149>

Question 733

If a firm has unlimited funds to invest in capital assets, all independent projects that meet its minimum investment criteria should be implemented.

Answer: <https://biology-forums.com/index.php?topic=576665>

Question 734

Average age of inventory is viewed as the average length of time inventory is held by a firm or as the average number of days' sales in inventory.

Answer: <https://biology-forums.com/index.php?topic=575549>

Question 735

The problem with a constant-payout-ratio dividend policy from the shareholders' perspective is that _____.

- A) it pays constant dividend irrespective of the earnings of a firm
- B) if the firm's earnings drop, the dividends tend to be lower
- C) even when earnings are low, the company must pay a fixed dividend
- D) there is no uniformity in this type of dividend policy

Answer: <https://biology-forums.com/index.php?topic=577257>

Question 736

Purchasers of a stock selling ex dividend receive the current dividend.

Answer: <https://biology-forums.com/index.php?topic=577169>

Question 737

A lockbox system is used to reduce collection float by shortening all three basic float components (i.e., mail, processing, and clearing).

Answer: <https://biology-forums.com/index.php?topic=577518>

Question 738

A type of long-term financing used by both corporations and government entities is _____.

- A) common stocks
- B) bonds
- C) preferred stocks
- D) retained earnings

Answer: <https://biology-forums.com/index.php?topic=576124>

Question 739

Which of the following is a measure of profit maximization to shareholders?

- A) the timing of returns
- B) earnings per share
- C) current assets
- D) market risk premium

Answer: <https://biology-forums.com/index.php?topic=575263>

Question 740

Systematic risk is also referred to as _____.

- A) business specific risk
- B) internal risk
- C) nondiversifiable risk
- D) maturity risk

Answer: <https://biology-forums.com/index.php?topic=576467>

Question 741

A corporation sold a fixed asset for \$100,000. This is _____.

- A) an investment cash flow and a source of funds
- B) an operating cash flow and a source of funds
- C) an operating cash flow and a use of funds
- D) an investment cash flow and a use of funds

Answer: <https://biology-forums.com/index.php?topic=575675>

Question 742

It would be correct to define operating cash flow (OCF) as net operating profit after taxes plus depreciation.

Answer: <https://biology-forums.com/index.php?topic=575656>

Question 743

Congress allows corporations to exclude from taxes 70 to 100 percent of dividends received from other corporations. Congress did this to _____.

- A) encourage corporations to invest in each other
- B) avoid double taxation on dividends
- C) eliminate most of the potential tax liability from the dividends received by the second and any subsequent corporations
- D) lower the cost of equity financing for corporations

Answer: <https://biology-forums.com/index.php?topic=575430>

Question 744

The key benefit of a horizontal merger is its ability to reduce risk by merging firms that have different seasonal or cyclic patterns of sales and earnings.

Answer: <https://biology-forums.com/index.php?topic=577977>

Question 745

Cull Incorporated recently borrowed \$250,000 from Century Bank when the prime rate was 4%. The loan was for 90 days with interest to be paid at the end of the period with a rate fixed at 1.5% above the prime rate. What is the total interest paid on this loan and what is the effective annual rate? (Assume a 365 day year.)

- A) The total interest paid is \$3390.41 and the effective annual rate is 5.62%.
- B) The total interest paid is \$13,750 and the effective annual rate is 5.62%.
- C) The total interest paid is \$13,750 and the effective annual rate is 5.55%.
- D) The total interest paid is \$3390.41 and the effective annual rate is 1.36%.

Answer: <https://biology-forums.com/index.php?topic=577657>

Question 746

Identify whether the key characteristic describes common stock (CS) or preferred stock (PS).

- _____ 1. Source of financing which places minimum constraints on the firm
- _____ 2. Used by young firms receiving investment funds from venture capital firms
- _____ 3. Potential dilution of earnings and voting power
- _____ 4. Fixed financial obligation
- _____ 5. Increases the firm's borrowing power
- _____ 6. May have cumulative and participating features
- _____ 7. May be convertible into another type of security
- _____ 8. Last to receive earnings or distribution of assets in the event of bankruptcy
- _____ 9. Frequently includes a call feature

Answer: <https://biology-forums.com/index.php?topic=576226>

Question 747

The exercise price or option price of a warrant is normally set _____.

- A) below the book value of the firm's stock at the time of issuance
- B) equal to the market price of the firm's stock at the time of issuance
- C) above the market price of the firm's stock at the time of issuance
- D) above the book value of the firm's stock at the time of issuance

Answer: <https://biology-forums.com/index.php?topic=577901>

Question 748

Which of the following is an example of a nonconventional pattern of cash flows?

- A)
Year 0 1 2 3 4
cash flow -200 150 310 265 200
- B)
Year 0 1 2 3 4
cash flow 200 100 -100 200 -300
- C)
Year 0 1 2 3 4
cash flow -200 100 100 200 300
- D)

Year 0 1 2 3 4

cash flow -200 150 150 150 150

Answer: <https://biology-forums.com/index.php?topic=576703>

Question 749

Which of the following is a motive for using convertible securities in a firm's financing mix?

- A) a form of long-term financing
- B) opportunity bondholders to share in the firm's future success
- C) a method of raising permanent cheap funds for long time
- D) an eventual shift in the capital structure to a more levered position

Answer: <https://biology-forums.com/index.php?topic=577857>

Question 750

The basic shortcoming of the EBIT-EPS approach to capital structure is _____.

- A) that the optimal capital structure is difficult to compute
- B) its disregard for the presence of preferred stock in the capital structure
- C) its disregard for the firm's dividend policy
- D) that it concentrates on the maximization of EPS rather than the maximization of owner's wealth

Answer: <https://biology-forums.com/index.php?topic=577159>

Question 751

For a risk-seeking manager, no change in return would be required for an increase in risk.

Answer: <https://biology-forums.com/index.php?topic=576351>

Question 752

Convertible securities can usually be sold with interest rates _____.

- A) lower than those of other nonconvertible securities
- B) equal to those of other nonconvertible securities
- C) higher than those of other nonconvertible securities
- D) that has no relation to those of other nonconvertible securities

Answer: <https://biology-forums.com/index.php?topic=577844>

Question 753

The magnification of risk and return introduced through the use of fixed-cost financing, such as debt and preferred stock is called financial leverage.

Answer: <https://biology-forums.com/index.php?topic=575579>

Question 754

Which of the following is true of mortgage-backed securities?

- A) Mortgage-backed securities assure a flat 15% return.
- B) Mortgage-backed securities are guaranteed by the U.S. government.
- C) Mortgage-backed securities can only be purchased by investment banks.
- D) Mortgage-backed securities represent claims on the cash flows generated by a pool of homeloans.

Answer: <https://biology-forums.com/index.php?topic=575406>

Question 755

In computing the weighted average cost of capital, the target weights are either book value or historical value weights based on actual capital structure proportions.

Answer: <https://biology-forums.com/index.php?topic=576642>

Question 756

When the constant-growth valuation model is used to find the cost of common stock equity capital, it can easily be adjusted for flotation costs to find the cost of new common stock; the capital asset pricing model (CAPM) does not provide a simple adjustment mechanism.

Answer: <https://biology-forums.com/index.php?topic=576607>

Question 757

The capital asset pricing model describes the relationship between the required return, or the cost of common stock equity capital, and the nonsystematic risk of a firm as measured by the beta coefficient.

Answer: <https://biology-forums.com/index.php?topic=576609>

Question 758

_____ bonds are characterized by interest payments that are required only when earnings are available.

- A) Floating rate
- B) Income
- C) Mortgage
- D) Junk

Answer: <https://biology-forums.com/index.php?topic=576080>

Question 759

Common stock equivalents are all contingent securities that derive a major portion of their value from their conversion privileges or common stock characteristics.

Answer: <https://biology-forums.com/index.php?topic=577821>

Question 760

A lessor is the receiver of the services of the assets under a lease whereas a lessee is the owner of the assets that are being leased.

Answer: <https://biology-forums.com/index.php?topic=577767>

Question 761

The capital asset pricing model (CAPM) links together unsystematic risk and return for all assets.

Answer: <https://biology-forums.com/index.php?topic=576505>

Question 762

What is the NPV for a project if its cost of capital is 12 percent and its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash flows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$1,700,000 in year 3, and (\$1,300,000) in year 4?

- A) -\$1,494,336
- B) \$158,011
- C) -\$158,011
- D) \$3,505,664

Answer: <https://biology-forums.com/index.php?topic=576756>

Question 763

Yield to maturity on a bond with price equal to its par value will _____.

- A) be less than the coupon rate
- B) be more than the coupon rate
- C) always be equal to the coupon rate
- D) be less than or equal to the coupon rate depending on the required return

Answer: <https://biology-forums.com/index.php?topic=576154>

Question 764

The marginal tax rate represents the rate at which the next dollar of income is taxed.

Answer: <https://biology-forums.com/index.php?topic=575417>

Question 765

The relationship between operating and financial leverage is additive rather than multiplicative.

Answer: <https://biology-forums.com/index.php?topic=577029>

Question 766

The base level of sales must be held constant to compare the total leverage associated with different levels of fixed costs.

Answer: <https://biology-forums.com/index.php?topic=577032>

Question 767

Different projects have different levels of risk. As a result, the acceptance of a particular project generally has an impact on a firm's overall risk.

Answer: <https://biology-forums.com/index.php?topic=576877>

Question 768

Which of the following is true of cash basis accounting?

- A) All credit sales will be recorded as revenue.

- B) Revenue is recognized when a customer pays cash.
- C) Expenses are recognized when they are incurred.
- D) Accounts receivable and accounts payable can never be zero.

Answer: <https://biology-forums.com/index.php?topic=575298>

Question 769

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, currently dividends are subject to a maximum tax rate of 8 percent.

Answer: <https://biology-forums.com/index.php?topic=576184>

Question 770

Zheng Sen's Chinese Take-Out had earnings before interest and taxes of \$4,000,000 last year. The firm has a marginal tax rate of 40 percent and currently has the following capital structure:

- (a) Calculate the firm's after-tax return on equity (ROE) and earnings per share (EPS).
- (b) If the firm retires \$4,000,000 of preferred stock using the proceeds from an equal increase in long-term debt, what would have been the after-tax return on equity (ROE) and earnings per share (EPS)?
- (c) If the firm retires \$4,000,000 of preferred stock using the proceeds from the sale of 500,000 shares of common stock, what would have been the after-tax return on equity (ROE) and earnings per share (EPS)?

Answer: <https://biology-forums.com/index.php?topic=576272>

Question 771

Based on analysis of the company and expected industry and economic conditions, China Imports is expected to earn \$4.60 per share of common stock next year. The average price/earnings ratio for firms in the same industry is 8. Calculate the estimated value of a share of China Imports common stock.

Answer: <https://biology-forums.com/index.php?topic=576337>

Question 772

A key consideration in the holding company decision is _____.

- A) the risk-return tradeoff due to the leverage effect
- B) the greater "distance" between top level and operating management
- C) the risk of the domino effect if one company in the holding company fails
- D) the risk from the separate "companies" in the holding company being classed as one company

Answer: <https://biology-forums.com/index.php?topic=578111>

Question 773

The amount earned during the accounting period on each outstanding share of common stock is called _____.

- A) dividend per share
- B) earnings per share
- C) net profits after taxes
- D) book value per share

Answer: <https://biology-forums.com/index.php?topic=575259>

Question 774

The U.S. approaches used in hostile takeovers is practically nonexistent in most other countries throughout the world including continental Europe and Asia.

Answer: <https://biology-forums.com/index.php?topic=578098>

Question 775

A white knight is a takeover defense in which a firm issues securities that give their holders certain rights that become effective when a takeover is attempted and that make the target firm less desirable to a hostile acquirer.

Answer: <https://biology-forums.com/index.php?topic=578085>

Question 776

A friendly merger transaction _____.

- A) is a transaction in which merger is completed by forceful acquisition of the target's shares from the secondary market
- B) requires a public announcement for its plan of acquisition
- C) can be consummated through an exchange of the acquirer's stock and cash
- D) can only be completed by purchasing all the outstanding bonds of the target firm

Answer: <https://biology-forums.com/index.php?topic=577990>

Question 777

The internal rate of return assumes that a project's intermediate cash inflows are reinvested at a rate equal to the firm's cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576793>

Question 778

Tangshan Mining has extended credit terms of 3/15 net 30 EOM. The cost of giving up the cash discount, assuming payment would be made on the last day of the credit period, is 75.26 percent. If the firm were able to stretch its accounts payable to 60 days without damaging its credit rating, the cost of giving up the cash discount would only be _____.

- A) 18.81%
- B) 18.25%
- C) 21.90%
- D) 25.09%

Answer: <https://biology-forums.com/index.php?topic=577610>

Question 779

The analyst should be careful when analyzing ratios that _____.

- A) pre-audited statements are used
- B) right interpretation of the ratio value is made
- C) financial data being compared need not be uniform
- D) inflation will not effect while comparing older to newer firms

Answer: <https://biology-forums.com/index.php?topic=575537>

Question 780

The average tax rate paid on the firm's ordinary income can be calculated by dividing its taxes by its taxable income.

Answer: <https://biology-forums.com/index.php?topic=575420>

Question 781

Based on the table 6.1, on this trading day, the number of Ford bonds which changed hands was _____.

- A) 5,100
- B) 51,000
- C) 510,000
- D) 5,100,000

Answer: <https://biology-forums.com/index.php?topic=576095>

Question 782

The Euromarket is the international financial market that provides for borrowing and lending currencies outside their country of origin.

Answer: <https://biology-forums.com/index.php?topic=578152>

Question 783

_____ is a procedure resulting in a number reflecting an applicant's credit strength, derived as a weighted average of the scores obtained on a variety of key financial and credit characteristics.

- A) Credit scoring
- B) Aging of receivables
- C) CAPM
- D) The economic order quantity model

Answer: <https://biology-forums.com/index.php?topic=577464>

Question 784

The return expected from an asset is fully defined by its _____.

- A) risk and cash flow
- B) cash flow and timing
- C) discount rate
- D) beta

Answer: <https://biology-forums.com/index.php?topic=576104>

Question 785

In evaluating the initial investment for a capital budgeting project, _____.

- A) an increase in net working capital is considered a cash inflow

- B) a decrease in net working capital is considered a cash outflow
- C) an increase in net working capital is considered a cash outflow
- D) net working capital does not have to be considered

Answer: <https://biology-forums.com/index.php?topic=576842>

Question 786

_____ rate of interest creates equilibrium between the supply of savings and the demand for investment funds.

- A) Nominal
- B) Real
- C) Risk-free
- D) Inflationary

Answer: <https://biology-forums.com/index.php?topic=575964>

Question 787

Which of the following is a forum in which suppliers and demanders of funds can transact business directly?

- A) shadow banking system
- B) financial markets
- C) commercial banks
- D) financial institutions

Answer: <https://biology-forums.com/index.php?topic=575364>

Question 788

China Imports currently has 2,000 shares of common stock outstanding. The firm has assets of \$200,000 and total liabilities including preferred stock of \$75,000. Calculate the book value per share of China Imports common stock.

Answer: <https://biology-forums.com/index.php?topic=576336>

Question 789

Which of the following is a major external source of credit information?

- A) suppliers
- B) bank checking
- C) customers
- D) distributors

Answer: <https://biology-forums.com/index.php?topic=577473>

Question 790

The objective for managing inventory is to _____.

- A) turn over inventory as quickly as possible without losing sales from stockouts
- B) improve the average collection period without affecting the sales
- C) make payment for the inventory as slowly as possible without losing suppliers
- D) reduce the time taken to process inventory into finished goods and increase sales

Answer: <https://biology-forums.com/index.php?topic=577413>

Question 791

A method of acquisition in which the acquiring firm exchanges its shares of stock for shares of the target company according to a predetermined ratio is called a stock swap transaction.

Answer: <https://biology-forums.com/index.php?topic=578057>

Question 792

The basic shortcoming of EBIT-EPS analysis is that this model focuses on the maximization of stock returns rather than on the maximization of share price.

Answer: <https://biology-forums.com/index.php?topic=577151>

Question 793

A financial manager's goal for the firm is to create a portfolio that maximizes return for a given level of risk.

Answer: <https://biology-forums.com/index.php?topic=576418>

Question 794

A firm's final sales forecast is usually a function of _____.

- A) its net income

- B) the salesperson's estimates of demand
- C) internal and external factors in combination
- D) its accounts receivable

Answer: <https://biology-forums.com/index.php?topic=575730>

Question 795

Edward Accounting Services has an outstanding issue of 1,000 shares preferred stock with a \$100 par value, an 9 percent annual dividend, and 5,000 shares of common stock outstanding. If the stock is cumulative and the board of directors has passed the preferred dividend for the last two years, how much must preferred stockholders be paid prior to paying dividends to common stockholders?

Answer: <https://biology-forums.com/index.php?topic=576227>

Question 796

Pro forma financial statements are used for _____.

- A) cash budgeting
- B) preparing financial statements
- C) profit planning
- D) auditing

Answer: <https://biology-forums.com/index.php?topic=575700>

Question 797

Given the information in Table 10.2 and 15 percent cost of capital,

- (a) compute the net present value.
- (b) should the project be accepted?

Answer: <https://biology-forums.com/index.php?topic=576760>

Question 798

The conversion value is the value of a convertible security as measured by the market price of the common stock into which it can be converted.

Answer: <https://biology-forums.com/index.php?topic=577819>

Question 799

In _____, an assignment may be made by the creditors of an insolvent firm to a third party who then has the power to liquidate the firm's assets.

- A) a voluntary private liquidation
- B) a greenmail
- C) an involuntary liquidation under Chapter Seven of the Bankruptcy Reform Act of 1978
- D) a voluntary liquidation under Chapter Seven of the Bankruptcy Reform Act of 1978

Answer: <https://biology-forums.com/index.php?topic=578129>

Question 800

Which of the following is a source of long-term funds?

- A) commercial paper
- B) retained earnings
- C) factoring
- D) money market instruments

Answer: <https://biology-forums.com/index.php?topic=576556>

Question 801

When more units of a foreign currency are required to buy one dollar, the currency is said to have appreciated with respect to the dollar.

Answer: <https://biology-forums.com/index.php?topic=578194>

Question 802

The tax liability of a corporation with ordinary income of \$1,100,000 is _____.

Range of taxable income Marginal rate

- \$ 0 to \$ 50,000 15%
- 50,000 to 75,000 25
- 75,000 to 100,000 34
- 100,000 to 335,000 39
- 335,000 to 10,000,000 34
- 10,000,000 to 15,000,000 35

A) \$362,250

- B) \$340,000
- C) \$374,000
- D) \$390,000

Answer: <https://biology-forums.com/index.php?topic=575425>

Question 803

Credit analysts usually analyze an applicant's creditworthiness by using the dimensions of credit such as character, capacity, capital, collateral, and conditions.

Answer: <https://biology-forums.com/index.php?topic=577445>

Question 804

The stockholder's report includes _____.

- A) an estimated interest cost report
- B) an estimated dividend report
- C) a break-even sales report
- D) a statement of retained earnings

Answer: <https://biology-forums.com/index.php?topic=575472>

Question 805

On average in U.S., during the past 75 years, the return on large-company stocks has exceeded the return on long-term corporate bonds.

Answer: <https://biology-forums.com/index.php?topic=576398>

Question 806

Disbursement float results from the delay between the time that a payer or customer deducts a payment from its checking account ledger (disburses it) and the time that a payee or vendor actually receives these funds in a spendable form.

Answer: <https://biology-forums.com/index.php?topic=577517>

Question 807

Sound cash management techniques would support _____.

- A) minimizing collection float, maximizing disbursement float, and minimizing the cash conversion cycle
- B) minimizing collection float, maximizing disbursement float, and minimizing the cash turnover
- C) maximizing collection float, minimizing disbursement float, and minimizing operating cash flow
- D) minimizing collection float, maximizing disbursement float, and maximizing investing cash flow

Answer: <https://biology-forums.com/index.php?topic=577575>

Question 808

A _____ agreement normally states the exact conditions and procedures for the purchase of an account.

- A) factoring
- B) pledging accounts receivable
- C) revolving credit
- D) line of credit

Answer: <https://biology-forums.com/index.php?topic=577736>

Question 809

For firms that are in a financial position to take a cash discount, it is advisable not to take the discount if the terms offered are 2/10 net 30.

Answer: <https://biology-forums.com/index.php?topic=577596>

Question 810

Which of the following is true of call and put options?

- A) Options are issued by private firms.
- B) The presence of options trading in a firm's stock could increase the firm's share price.
- C) Options are a source of funding to a corporation.
- D) Call options help to manage downside risk and put options help to manage upside risk.

Answer: <https://biology-forums.com/index.php?topic=577929>

Question 811

Which of the following is a cash flow from financing activities?

- A) purchase of a long-term asset
- B) decrease in accounts payable

- C) increase in accounts payable
- D) repurchasing stock

Answer: <https://biology-forums.com/index.php?topic=575677>

Question 812

A form of debt or equity that possesses characteristics of both debt and equity financing is called _____.

- A) hybrid security
- B) convertible security
- C) derivative security
- D) cumulative security

Answer: <https://biology-forums.com/index.php?topic=577763>

Question 813

The option buyer who expects a stock price to decline will purchase _____.

- A) a call
- B) a warrant
- C) a put
- D) a convertible bond

Answer: <https://biology-forums.com/index.php?topic=577932>

Question 814

In calculating the cost of common stock equity, _____.

- A) the use of the capital asset pricing model (CAPM) is often preferred, because the data required are more readily available
- B) the use of the CAPM is preferred, because it directly considers risk and the effect of inflation on the stock prices
- C) the use of the constant-growth valuation model is often preferred, because the data required are more readily available
- D) the use of the constant-growth valuation model is often preferred, because it has a stronger theoretical foundation

Answer: <https://biology-forums.com/index.php?topic=576630>

Question 815

The percentage-of-sales method of preparing pro forma income statements assumes that _____.

- A) sales are fixed
- B) all costs inversely vary with sales
- C) all costs are independent
- D) all costs are variable

Answer: <https://biology-forums.com/index.php?topic=575753>

Question 816

In defending against a hostile takeover, the strategy that involves the target firm finding a more suitable acquirer and prompting it to compete with the initial hostile acquirer to take over the firm is called the _____ strategy.

- A) poison pill
- B) white knight
- C) golden parachute
- D) greenmail

Answer: <https://biology-forums.com/index.php?topic=578101>

Question 817

An agency problem occurs when a firm selects an ineffective marketing, advertising, and PR firm to represent them.

Answer: <https://biology-forums.com/index.php?topic=575329>

Question 818

The 2002 Sarbanes-Oxley Act was designed to _____.

- A) limit the compensation that could be paid to corporate CEOs
- B) eliminate the many disclosure and conflict-of-interest problems of corporations
- C) provide uniform international accounting standards
- D) provide the guidelines to minimize the tax

Answer: <https://biology-forums.com/index.php?topic=575469>

Question 819

A large portion of the commercial paper is issued by _____.

- A) commercial finance companies
- B) government agencies
- C) venture capitalists
- D) small manufacturing firms

Answer: <https://biology-forums.com/index.php?topic=577700>

Question 820

When preparing the retained earnings statement, _____ is(are) subtracted in order to derive at the ending balance of retained earnings.

- A) net profits after taxes
- B) interest expense
- C) depreciation
- D) dividends

Answer: <https://biology-forums.com/index.php?topic=575488>

Question 821

The key aspects of a financial planning process are _____.

- A) cash planning and investment planning
- B) operations planning and investment planning
- C) investment planning and profit planning
- D) cash planning and profit planning

Answer: <https://biology-forums.com/index.php?topic=575699>

Question 822

For assets traded in an efficient market, the diversifiable risk can be eliminated through diversification.

Answer: <https://biology-forums.com/index.php?topic=576920>

Question 823

A technique that provides an analyst with the information concerning the proportion of each type of account that has been outstanding for a specified period of time is called _____.

- A) credit analysis
- B) credit scoring
- C) aging of receivables
- D) the economic order quantity model

Answer: <https://biology-forums.com/index.php?topic=577501>

Question 824

The consequences of missing a financial lease payment are _____ those of missing an interest or principal payment on debt.

- A) less severe than
- B) the same as
- C) more severe than
- D) unrelated to

Answer: <https://biology-forums.com/index.php?topic=577808>

Question 825

Supervoting shares of common stock provide shareholders with ten times the voting power of ordinary shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=576179>

Question 826

If an asset is sold for less than its book value, the loss on the sale may be used to offset ordinary operating income provided the asset is used in the business.

Answer: <https://biology-forums.com/index.php?topic=576854>

Question 827

_____ are obligations of the U.S. Treasury with common maturities of 91 to 182 days and that have a strong secondary market.

- A) Treasury notes
- B) Treasury bills
- C) Federal agency issues
- D) Banker's acceptances

Answer: <https://biology-forums.com/index.php?topic=577558>

Question 828

The all-current-rate method dictated by the FASB No. 52 statement requires the translation of all balance sheet accounts at the _____ rate and all income statement items at the _____ rates.

- A) closing; average
- B) average; closing
- C) historical; current
- D) average; historical

Answer: <https://biology-forums.com/index.php?topic=578183>

Question 829

Which of the following is true of preferred stocks?

- A) Preferred stock with a conversion feature allows holders to change each share into a stated number of shares of common stock.
- B) Like bonds, preferred stocks are due for payment on a fixed maturity date along with interest.
- C) Restrictive covenants of preferred stocks include provisions about listing of stocks on the securities exchange and determining the price of stock.
- D) A firm's bond indenture indicates how many authorized preferred shares and bonds it can issue.

Answer: <https://biology-forums.com/index.php?topic=576222>

Question 830

_____ is the actual amount each common stockholder would expect to receive if a firm's assets are sold for their market value, creditors and preferred stockholders are repaid, and any remaining money is divided among the common stockholders.

- A) Liquidation value
- B) Book value
- C) The P/E multiple
- D) The present value of the dividends

Answer: <https://biology-forums.com/index.php?topic=576328>

Question 831

A negative cash conversion cycle _____.

- A) means that the operating cycle exceeds the average inventory period
- B) means that the average payment period exceeds the operating cycle
- C) indicates that a firm is shortening its average payment period and lengthening its average collection period
- D) indicates that a firm is shortening its average age of inventory and average payment period

Answer: <https://biology-forums.com/index.php?topic=577382>

Question 832

In a voluntary settlement, composition is an arrangement in which the creditor committee replaces the firm's operating management and operates the firm until all claims have been settled.

Answer: <https://biology-forums.com/index.php?topic=578121>

Question 833

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ more total leverage than an otherwise equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577073>

Question 834

Tender offer repurchase is a repurchase program in which a firm _____.

- A) offers to repurchase a fixed number of shares, usually at a discount relative to the market value
- B) offers to repurchase a fixed number of shares, usually at a premium relative to the market value
- C) offers to repurchase a fixed number of shares, usually at par relative to the market value
- D) has a right to repurchase a fixed number of shares at a premium relative to the market value

Answer: <https://biology-forums.com/index.php?topic=577191>

Question 835

The pecking order explanation of capital structure states that a hierarchy of financing exists for firms, in which new external debt financing is employed first, followed by retained earnings and finally by external equity financing.

Answer: <https://biology-forums.com/index.php?topic=577090>

Question 836

The aggressive funding strategy is risky due to its minimum level of net working capital, high dependency on short-term sources of funds, and the changing short-term interest.

Answer: <https://biology-forums.com/index.php?topic=577339>

Question 837

Securitization is the process of pooling mortgages or other types of loans and selling the claims or securities against that pool in the secondary market.

Answer: <https://biology-forums.com/index.php?topic=575398>

Question 838

A firm in a merger transaction that attempts to merge or takeover another company is called the _____.

- A) target company
- B) holding company
- C) acquiring company
- D) consolidated company

Answer: <https://biology-forums.com/index.php?topic=577983>

Question 839

When a firm has fixed operating costs, operating leverage is present. In that case, an increase in sales results in a more-than-proportional increase in EBIT, and a decrease in sales results in a more-than-proportional decrease in EBIT.

Answer: <https://biology-forums.com/index.php?topic=577021>

Question 840

Certain financing plans are termed conservative when _____.

- A) short-term financing is used frequently
- B) working capital is relatively high
- C) current assets are relatively low
- D) risk is increased

Answer: <https://biology-forums.com/index.php?topic=577372>

Question 841

In the statement of cash flows, the cash flows from financing activities result from debt and equity financing transactions; including incurrence and repayment of debt, cash inflow from the sale of stock, and cash outflows to repurchase stock or pay cash dividends.

Answer: <https://biology-forums.com/index.php?topic=575644>

Question 842

Nico Yong is considering the purchase of 100 shares of Cisco Systems stock at \$22 per share. Because the economy is picking up, Nico believes the demand for Oracle's router systems will increase substantially causing the price of Cisco's shares to increase to \$30 per share. As an alternative, Nico is considering the purchase of a call option for 100 shares of Cisco at with an exercise price of \$25. This 180 day option will cost Nico \$200. Assume no brokerage costs or dividends.

- (a) What will Nico's profit be on the stock transaction if he decides to buy the stock and its price does increase to \$30 per share and he sells?
- (b) How much will Nico earn on the option transaction if he purchases the option and the underlying stock price rises to \$30?
- (c) How much must the stock price rise for Nico to break even on the option transaction?
- (d) Based on parts (a) and (b) above, what should Nico do? Explain.

Answer: <https://biology-forums.com/index.php?topic=577948>

Question 843

Tangshan Mining is considering issuing long-term debt. The debt would have a 30 year maturity and a 12 percent coupon rate and make semiannual coupon payments. In order to sell the issue, the bonds must be underpriced at a discount of 2.5 percent of face value. In addition, the firm would have to pay flotation costs of 2.5 percent of face value. The firm's tax rate is 33 percent. Given this information, the after-tax cost of debt for Tangshan Mining would be _____.

- A) 6.38%
- B) 12.76%
- C) 4.98%
- D) 8.48%

Answer: <https://biology-forums.com/index.php?topic=576581>

Question 844

IBM stock will experience greater trading activity (in terms of the number of shares traded on a given day) compared to IBM bonds.

Answer: <https://biology-forums.com/index.php?topic=576043>

Question 845

The total rate of return on an investment over a given period of time is calculated by _____.

- A) dividing the asset's cash distributions during the period, plus change in value, by its beginning-of period investment value.
- B) dividing the asset's cash distributions during the period, plus change in value, by its ending-of period investment value.
- C) dividing the asset's cash distributions during the period, minus change in value, by its ending-of period investment value.
- D) dividing the asset's cash distributions during the period, minus change in value, by its beginning-of period investment value.

Answer: <https://biology-forums.com/index.php?topic=576367>

Question 846

An inverted yield curve is a downward-sloping yield curve that indicates that short-term interest rates are generally higher than long-term interest rates.

Answer: <https://biology-forums.com/index.php?topic=575947>

Question 847

Disbursement float is experienced by a payee and is a delay in the actual withdrawal of funds.

Answer: <https://biology-forums.com/index.php?topic=577515>

Question 848

To expand its operation, the International Tools Inc. (ITI) has applied for a \$3,500,000 loan from the International Bank. According to ITI's financial manager, the company can only afford a maximum yearly loan payment of \$1,000,000. The bank has offered ITI, 1) a 3-year loan with a 10 percent interest rate, 2) a 4-year loan with a 11 percent interest rate, or 3) a 5-year loan with a 12 percent interest rate.

- (a) Compute the loan payment under each option.
- (b) Which option should the company choose?

Answer: <https://biology-forums.com/index.php?topic=575928>

Question 849

A firm expects to have funds of \$150,000 idle for 60 days. If the firm could purchase marketable securities yielding 10 percent and pay brokerage fees of \$1,500, the firm _____.

- A) should make the investment since interest earned exceeds brokerage fees
- B) should not make the investment since the required rate of return is less than the cost of investment
- C) should leave the \$150,000 in cash
- D) should invest the funds for more than 60 days due to the favorable rate

Answer: <https://biology-forums.com/index.php?topic=577576>

Question 850

A putable bond gives the bondholder _____.

- A) the right to sell the bond back to the corporation at a discount
- B) the right to sell the bond back to the corporation at a stated premium
- C) the right to redeem the bond back to the corporation at the current market value
- D) the right to redeem the bond back to the corporation at par

Answer: <https://biology-forums.com/index.php?topic=576087>

Question 851

A(n) _____ is a graphic depiction between the maturity and rate of return for bonds with similar risks.

- A) yield curve
- B) supply function
- C) risk-return profile
- D) aggregate demand curve

Answer: <https://biology-forums.com/index.php?topic=575973>

Question 852

Which of the following is a strength of a corporation?

- A) low taxes
- B) limited liability
- C) low organization costs
- D) less government regulation

Answer: <https://biology-forums.com/index.php?topic=575238>

Question 853

Tom is evaluating the growth rate in dividends of a company over the past 6 years. What is the annual compound growth rate if the dividends are as follows:

Answer: <https://biology-forums.com/index.php?topic=575927>

Question 854

The owners of a holding company can control significantly larger amounts of assets than they could acquire through mergers.

Answer: <https://biology-forums.com/index.php?topic=578092>

Question 855

When computing an interest or growth rate, the rate will increase with an increase in future value, holding present value and the number of periods constant.

Answer: <https://biology-forums.com/index.php?topic=575873>

Question 856

A U.S. parent company's foreign equity accounts are translated into dollars using the historical rate or average rate based on the company's discretion.

Answer: <https://biology-forums.com/index.php?topic=575461>

Question 857

Which of the following is a basic source of capital for a firm ?

- A) short-term debt
- B) discounts from suppliers
- C) current liabilities
- D) common stock

Answer: <https://biology-forums.com/index.php?topic=577104>

Question 858

A project must be rejected if its payback period is less than the maximum acceptable payback period.

Answer: <https://biology-forums.com/index.php?topic=576715>

Question 859

The "stakeholders" in targeted takeover companies include the _____.

- A) federal reserve bank
- B) media
- C) employees
- D) state government

Answer: <https://biology-forums.com/index.php?topic=578107>

Question 860

The claims of the equityholders on a firm's assets have priority over the claims of creditors because the equityholders are the owners of the firm.

Answer: <https://biology-forums.com/index.php?topic=576228>

Question 861

Ex dividend is _____.

- A) a period beginning 2 business days prior to the date of record, during which a stock is sold without the right to receive the current dividend
- B) the date on which all investors whose names are recorded as stockholders receive a declared dividend at a specified future time
- C) a period beginning 7 business days prior to the date of record, during which a stock is sold without the right to receive the current dividend
- D) the actual date on which a firm mails the dividend payment to the holders of record

Answer: <https://biology-forums.com/index.php?topic=577187>

Question 862

The internal rate of return (IRR) is defined as the discount rate that equates the net present value with the initial investment associated with a project.

Answer: <https://biology-forums.com/index.php?topic=576761>

Question 863

One of the primary motives for adding fixed assets to a firm is _____.

- A) expansion
- B) replacement

- C) renewal
- D) transformation

Answer: <https://biology-forums.com/index.php?topic=576691>

Question 864

Tim purchased a bounce house one year ago for \$6,500. During the year it generated \$4,000 in cash flow. If Time sells the bounce house today, he could receive \$6,100 for it. What would be his rate of return under these conditions?

Answer: <https://biology-forums.com/index.php?topic=576375>

Question 865

Prior to the 2008 financial crisis, most investors viewed mortgage-backed securities as relatively safe investments.

Answer: <https://biology-forums.com/index.php?topic=575401>

Question 866

A portfolio combining two assets with less than perfectly positive correlation can reduce total risk to a level below that of either of the components.

Answer: <https://biology-forums.com/index.php?topic=576435>

Question 867

The primary concern of creditors when assessing the strength of a firm is its _____.

- A) profitability
- B) leverage
- C) short-term liquidity
- D) share price

Answer: <https://biology-forums.com/index.php?topic=575527>

Question 868

A firm purchased goods with a purchase price of \$1,000 and credit terms of 1/10 net 30. The firm paid for these goods on the 5th day after the date of sale. The firm must pay _____ for the goods.

- A) \$990
- B) \$900
- C) \$1,000
- D) \$1,100

Answer: <https://biology-forums.com/index.php?topic=577605>

Question 869

The lower the fixed-payment coverage ratio, the lower is the firm's financial leverage.

Answer: <https://biology-forums.com/index.php?topic=575582>

Question 870

A firm has an issue of preferred stock outstanding that has a par value of \$100 and a 4% dividend. If the current market price of the preferred stock is \$50, the yield on the preferred stock is _____.

- A) 4.00%
- B) 6.00%
- C) 8.00%
- D) 12.00%

Answer: <https://biology-forums.com/index.php?topic=576295>

Question 871

Nico bought 100 shares of a company's stock for \$22.00 per share on January 1, 2013. He received a dividend of \$2.00 per share at the end of 2013 and \$3.00 per share at the end of 2014. At the end of 2015, Nico collected a dividend of \$4.00 per share and sold his stock for \$18.00 per share. What was Nico's realized holding period return? What was Nico's compound annual rate of return? Explain the difference?

Answer: <https://biology-forums.com/index.php?topic=576374>

Question 872

A lessee is the receiver of the services of the assets under a lease whereas a lessor is the owner of the assets that are being leased.

Answer: <https://biology-forums.com/index.php?topic=577766>

Question 873

Government can obtain funds _____.

- A) by trading in equity market
- B) by issuing financial instruments such as futures and options
- C) through forex market
- D) by selling debt securities

Answer: <https://biology-forums.com/index.php?topic=575350>

Question 874

Since lenders are generally reluctant to grant loans to a firm to pay dividends, the firm's ability to pay cash dividends is generally constrained by the amount of excess cash available.

Answer: <https://biology-forums.com/index.php?topic=577224>

Question 875

Seasonal buildups of inventory and receivables are generally financed with _____.

- A) short-term loans
- B) long-term loans
- C) retained earnings
- D) stockholders' equity

Answer: <https://biology-forums.com/index.php?topic=577670>

Question 876

What is the profitability index of a project that has an initial cash outflow of \$600, an inflow of \$250 for the next 3 years and a cost of capital of 10 percent?

- A) 0.667
- B) 2.036
- C) 1.036
- D) 2.739

Answer: <https://biology-forums.com/index.php?topic=576758>

Question 877

Which of the following creates a secured short-term loan with accounts receivable?

- A) lines of credit
- B) commercial paper
- C) pledge of accounts receivable
- D) factoring of accounts receivable

Answer: <https://biology-forums.com/index.php?topic=577739>

Question 878

Maggie's Gold Coins, Inc. is considering shortening its credit period from 30 days to 20 days and believes, as a result of this change, its average collection period will decrease from 36 days to 30 days. Bad debt expenses are also expected to decrease from 1.2 percent to 0.8 percent of sales. The firm is currently selling 300,000 units but believes as a result of the change, sales will decline to 275,000 units. On 300,000 units, sales revenue is \$4,200,000, variable costs total \$3,300,000, and fixed costs are \$300,000. The firm has a required return on similar-risk investments of 15 percent. Evaluate this proposed change and make a recommendation to the firm.

Answer: <https://biology-forums.com/index.php?topic=577484>

Question 879

Tangshan China's stock is currently selling for \$160.00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. In addition, Tangshan China's most recent dividend was \$5.50. If the expected risk free rate of return is 3 percent, the expected market return is 8 percent, and Tangshan has a beta of 1.2, Tangshan's stock would be _____.

- A) overvalued because the market price is higher than the resulting share value
- B) undervalued because the market price is less than the resulting share value
- C) overvalued because the resulting share value is higher than the market value
- D) undervalued because the resulting share value is less than the market value

Answer: <https://biology-forums.com/index.php?topic=576326>

Question 880

Bessey Aviation is considering leasing or purchasing a small aircraft to transport executives between manufacturing facilities and the main administrative headquarters. The firm is in the 40 percent tax bracket and its after-tax cost of debt is 7 percent. The estimated after-tax cash flows for the lease and purchase alternatives are given below:

- (a) Given the above cash outflows for each alternative, calculate the present value of the after-tax cash flows using the after-tax cost of debt for each

alternative.

(b) Which alternative do you recommend? Why?

Answer: <https://biology-forums.com/index.php?topic=577813>

Question 881

If the CEO of a company were to pass away, what do you think would happen to price of the stock?

- A) It would decrease because of the perceived increased risk due of lack of near-term leadership.
- B) It would increase because of the perceived increased risk due of lack of near-term leadership.
- C) It would decrease because of the perceived decreased risk due of lack of near-term leadership.
- D) It would increase because of the perceived decreased risk due of lack of near-term leadership.

Answer: <https://biology-forums.com/index.php?topic=575271>

Question 882

The bond indenture identifies any collateral pledged against a bond and specifies how it is to be maintained.

Answer: <https://biology-forums.com/index.php?topic=576005>

Question 883

The key input to the short-term financial planning process is _____.

- A) the audit report
- B) the pro forma balance sheet
- C) the sales forecast
- D) the pro forma income statement

Answer: <https://biology-forums.com/index.php?topic=575731>

Question 884

The payback period of a project that costs \$1,000 initially and promises after-tax cash inflows of \$300 for the next three years is 3.33 years.

Answer: <https://biology-forums.com/index.php?topic=576710>

Question 885

Under no circumstances, adding assets to a portfolio would result in greater risk than that of the riskiest asset included in the portfolio.

Answer: <https://biology-forums.com/index.php?topic=576433>

Question 886

The combination of two or more companies that results in one of the corporations having a voting control of one or more of the other companies is a _____.

- A) congeneric formation
- B) consolidation
- C) spin-off
- D) holding company

Answer: <https://biology-forums.com/index.php?topic=577997>

Question 887

In capital budgeting, risk is generally thought of as the chance that NPV and IRR will provide conflicting recommendations to management.

Answer: <https://biology-forums.com/index.php?topic=576883>

Question 888

Which of the following is true of current assets?

- A) The time of conversion of current assets to more liquid form is relatively unpredictable.
- B) They are used to fund long-term operations and pay long-term expenses.
- C) They are more profitable because they add more value to the product than that provided by fixed assets.
- D) They are sources of short-term financing for a firm.

Answer: <https://biology-forums.com/index.php?topic=577313>

Question 889

Nongovernmental issues typically have slightly higher yields than government issues with similar maturities because _____.

- A) they experience little or no loss in value over time
- B) of the slightly higher risk associated with them
- C) the yields are guaranteed by the federal government
- D) of having stronger secondary market

Answer: <https://biology-forums.com/index.php?topic=577566>

Question 890

A firm has an average age of inventory of 101 days, an average collection period of 49 days, and an average payment period of 60 days. The firm's cash conversion cycle is _____ days.

- A) 60
- B) 52
- C) 41
- D) 90

Answer: <https://biology-forums.com/index.php?topic=577368>

Question 891

The break even cash inflow is the minimum level of cash inflow necessary for a project to be acceptable.

Answer: <https://biology-forums.com/index.php?topic=576884>

Question 892

Standard deviation measures the dispersion of an investment's return around the expected return.

Answer: <https://biology-forums.com/index.php?topic=576395>

Question 893

With subordinated debentures, payment of interest by a firm is required only when earnings are available.

Answer: <https://biology-forums.com/index.php?topic=576054>

Question 894

What is the rate of return on an investment of \$124,090 if the company expects to receive \$10,000 per year for the next 30 years?

- A) 7 percent
- B) 4 percent
- C) 6 percent
- D) 5.5 percent

Answer: <https://biology-forums.com/index.php?topic=575891>

Question 895

Greater the range of an asset, more the variability, or risk, the asset is said to possess.

Answer: <https://biology-forums.com/index.php?topic=576382>

Question 896

Combining two negatively correlated assets to reduce risk is known as _____.

- A) diversification
- B) valuation
- C) securitization
- D) risk aversion

Answer: <https://biology-forums.com/index.php?topic=576448>

Question 897

To be truly marketable, a security must have three basic characteristics: a ready market, risk-free, and safety of principal.

Answer: <https://biology-forums.com/index.php?topic=577527>

Question 898

Micro political risk is the risk faced by all foreign firms in a host country related to political change, revolution, and the adoption of new policies by the government of host country.

Answer: <https://biology-forums.com/index.php?topic=578198>

Question 899

A credit applicant's _____ reflects its ability to repay the requested credit.

- A) character
- B) capacity
- C) capital
- D) collateral

Answer: <https://biology-forums.com/index.php?topic=577470>

Question 900

The aggressive financing strategy is a _____ method while the conservative financing strategy is a _____ method.

- A) high-profit, high-risk; low-profit, low-risk
- B) high-profit, low-risk; low-profit, high-risk
- C) low-profit, high-risk; high-profit, low-risk
- D) low-profit, low-risk; high-profit, high-risk

Answer: <https://biology-forums.com/index.php?topic=577393>

Question 901

Which of the following represents a cash flow from operating activities?

- A) dividends paid
- B) increase or decrease in current liabilities
- C) increase or decrease in fixed assets
- D) repurchasing stock

Answer: <https://biology-forums.com/index.php?topic=575678>

Question 902

If a firm's fixed operating costs decrease, the firm's _____.

- A) operating breakeven point will decrease
- B) operating breakeven point will increase
- C) sale price per unit will decrease
- D) sale price per unit will increase

Answer: <https://biology-forums.com/index.php?topic=576995>

Question 903

_____ means that subsequent creditors agree to wait until all claims of the are senior debt satisfied before having their claims satisfied.

- A) Security interest
- B) Subordination
- C) Sinking fund requirement
- D) Bond indenture

Answer: <https://biology-forums.com/index.php?topic=576024>

Question 904

A firm with a total asset turnover that is lower than industry standard but with a current ratio that meets industry standard must have excessive _____.

- A) fixed assets
- B) inventory
- C) accounts receivable
- D) debt

Answer: <https://biology-forums.com/index.php?topic=575577>

Question 905

In their meeting with their advisor, Mr. and Mrs. O'Rourke concluded that they would need \$40,000 per year during their retirement years in order to live comfortably. They will retire 10 years from now and expect a 20-year retirement period. How much should Mr. and Mrs. O'Rourke deposit now in a bank account paying 9 percent to reach financial happiness during retirement?

Answer: <https://biology-forums.com/index.php?topic=575829>

Question 906

An A rated bond should provide investors with a higher yield than an otherwise identical B rated bond.

Answer: <https://biology-forums.com/index.php?topic=576048>

Question 907

A corporation is considering expanding operations to meet growing demand. With the capital expansion the current accounts are expected to change. Management expects cash to increase by \$10,000, accounts receivable by \$20,000, and inventories by \$30,000. At the same time accounts payable will increase by \$40,000, accruals by \$30,000, and long-term debt by \$80,000. The change in net working capital is _____.

- A) an increase of \$10,000
- B) a decrease of \$10,000

C) a decrease of \$90,000

D) an increase of \$80,000

Answer: <https://biology-forums.com/index.php?topic=576844>

Question 908

If a lessee leases (under a financial lease) an asset that subsequently becomes obsolete, it can require the lessor to replace it with an equally productive asset in real term over the remaining term of the lease.

Answer: <https://biology-forums.com/index.php?topic=577771>

Question 909

The prime rate of interest fluctuates with _____.

A) the changing supply-and-demand relationship for long-term funds

B) the changing supply-and-demand relationship for short-term funds

C) the liquidity requirement in a money market

D) the demand in a bond market

Answer: <https://biology-forums.com/index.php?topic=577667>

Question 910

Which of the following is a disadvantage of issuing preferred stock from the common stockholders' perspective?

A) There is a seniority of preferred stockholder's claim over common stockholders.

B) The preferred stockholders have superior voting rights in the selection of board of directors.

C) The preferred stockholders are always paid a higher proportion of dividend payments.

D) Issuance of preferred stocks will result in a higher risk, to the disadvantage of common stockholders.

Answer: <https://biology-forums.com/index.php?topic=576216>

Question 911

In capital budgeting, risk refers to a high degree of variability of the initial investment of a project.

Answer: <https://biology-forums.com/index.php?topic=576886>

Question 912

Some firms use the payback period as a decision criterion or as a supplement to sophisticated decision techniques, because _____.

A) it explicitly considers the time value of money

B) it can be viewed as a measure of risk exposure due to its focus on liquidity

C) the determination of the required payback period is an objectively determined criteria

D) it considers the timing of cash flows and therefore the time value of money

Answer: <https://biology-forums.com/index.php?topic=576735>

Question 913

The cash conversion cycle is the total number of days in the operating cycle less the average payment period for inputs to production.

Answer: <https://biology-forums.com/index.php?topic=577326>

Question 914

The yield to maturity on a bond with a current price equal to its par or face value, will always be equal to the coupon interest rate.

Answer: <https://biology-forums.com/index.php?topic=576149>

Question 915

Float is important in the cash conversion cycle of a firm because _____.

A) its presence reduces a firm's average collection period

B) its presence reduces a firm's average payment period

C) its presence lengthens both a firm's average collection period and its average payment period

D) its presence reduces the investment that a firm must make in its cash conversion cycle

Answer: <https://biology-forums.com/index.php?topic=577545>

Question 916

A controller typically handles the accounting activities, such as tax management, data processing, financial accounting, and cost accounting.

Answer: <https://biology-forums.com/index.php?topic=575219>

Question 917

Tangshan Mining is considering the acquisition of Zhengsen Mining at a cash price of \$6,000,000. The primary motivation for Tangshan's purchase of Zhengsen is for a special piece of drilling equipment that it believes will generate after-tax cash flows of \$2,000,000 per year during the next 5 years. Zhengsen Mining has liabilities of \$9,000,000 and Tangshan estimates that it can sell the remaining assets for \$6,500,000. Tangshan will use a 15 percent cost of capital for evaluating the acquisition. Based on this information, what is the net value of the special drilling equipment?

- A) \$1,795,690
- B) \$1,500,000
- C) (\$1,795,690)
- D) (\$1,500,789)

Answer: <https://biology-forums.com/index.php?topic=578066>

Question 918

In the statement of cash flows, retained earnings are handled through the adjustment of _____.

- A) "Revenue" and "Cost" accounts
- B) "Current Assets" and "Current Liabilities" accounts
- C) "Depreciation" and "Purchases" accounts
- D) "Net Profits After Taxes" and "Dividends Paid" accounts

Answer: <https://biology-forums.com/index.php?topic=575664>

Question 919

In a _____, new shares are sold to the existing shareholders.

- A) private placement
- B) public offering
- C) rights offering
- D) direct placement

Answer: <https://biology-forums.com/index.php?topic=576267>

Question 920

By definition, the money market involves the buying and selling of _____.

- A) stocks and bonds
- B) short-term securities
- C) all financial instruments except derivatives
- D) secured premium notes

Answer: <https://biology-forums.com/index.php?topic=575388>

Question 921

When a firm pays a stated dollar dividend and adjusts the payment as earnings increase, its dividend policy can be called _____.

- A) a low-regular-and-extra dividend policy
- B) a regular dividend policy
- C) a target dividend-payout ratio policy
- D) a constant-payout-ratio dividend policy

Answer: <https://biology-forums.com/index.php?topic=577259>

Question 922

A warrant is attached to a \$1,000 par, 10 percent, 10-year bond, paying annual interest and having 20 warrants attached for the purchase of a firm's stock. The bonds were initially sold for \$1,200. When issued, similar risk, straight bonds were selling at a 14 percent rate of return. The implied price of the warrant is _____.

- A) \$10.40
- B) \$20.40
- C) \$10.00
- D) \$20.00

Answer: <https://biology-forums.com/index.php?topic=577908>

Question 923

A firm that is unable to pay its bills as they come due is said to be insolvent.

Answer: <https://biology-forums.com/index.php?topic=577300>

Question 924

A reorganization plan _____.

- A) seeks to build a high debt-equity ratio
- B) generally exchanges equity for debt

C) must increase the fixed charges for a firm
D) must maintain the priorities of the contractual claims of all parties
Answer: <https://biology-forums.com/index.php?topic=578139>

Question 925

Which of the following is an example of marketable securities?
A) U.S. Treasury bills
B) treasury stock
C) mortgage backed securities
D) loans
Answer: <https://biology-forums.com/index.php?topic=575392>

Question 926

Free cash flow (FCF) is the cash flow a firm generates from its normal operations; calculated as EBIT minus taxes plus depreciation.
Answer: <https://biology-forums.com/index.php?topic=575645>

Question 927

Total security risk is the sum of a security's nondiversifiable and diversifiable risk.
Answer: <https://biology-forums.com/index.php?topic=576452>

Question 928

A functional currency is the currency of the parent company's country.
Answer: <https://biology-forums.com/index.php?topic=578180>

Question 929

Offshore Centers are cities or states that have achieved prominence as major centers for Euromarket business.
Answer: <https://biology-forums.com/index.php?topic=578149>

Question 930

A given change in inflationary expectations will be fully reflected in a corresponding change in the returns of all assets and will be reflected graphically in a parallel shift of the SML.
Answer: <https://biology-forums.com/index.php?topic=576512>

Question 931

When evaluating projects using NPV approach, _____.
A) projects having lower early-year cash flows tend to be preferred at higher discount rates
B) projects having higher early-year cash flows tend to be preferred at higher discount rates
C) projects having higher early-year cash flows tend to be preferred at lower discount rates
D) the discount rate and magnitude of cash flows do not affect the ranking by NPV approach
Answer: <https://biology-forums.com/index.php?topic=576806>

Question 932

Taizhou Products uses 800 units of a product per year on a continuous basis. The product has carrying costs of \$50 per unit per year and order costs of \$300 per order. It takes 30 days to receive a shipment after an order is placed and the firm requires a safety stock of 5 days usage in inventory.
(a) Calculate the economic order quantity (EOQ).
(b) Determine the reorder point. (Assume a 360-day year.)
Answer: <https://biology-forums.com/index.php?topic=577439>

Question 933

Combining two assets having perfectly negatively correlated returns will result in the creation of a portfolio with an overall risk that _____.
A) remains unchanged
B) decreases to a level below that of either asset
C) increases to a level above that of either asset
D) stabilizes to a level between the asset with the higher risk and the asset with the lower risk
Answer: <https://biology-forums.com/index.php?topic=576450>

Question 934

In general, the more net working capital a firm has, _____.

- A) the greater its risk
- B) the lower its risk
- C) the less likely are creditors to lend to the firm
- D) the lower its level of long-term funds

Answer: <https://biology-forums.com/index.php?topic=577314>

Question 935

The effective rate of interest is the contractual rate of interest charged by a lender or promised by a borrower.

Answer: <https://biology-forums.com/index.php?topic=575850>

Question 936

Regarding the tax treatment of payments to securities holders, it is true that _____.

- A) interest and preferred stock dividends are not tax-deductible, while common stock dividends are tax deductible
- B) interest and preferred stock dividends are tax-deductible, while common stock dividends are not tax-deductible
- C) common stock dividends and preferred stock dividends are tax-deductible, while interest is not tax-deductible
- D) common stock dividends and preferred stock dividends are not tax-deductible, while interest is tax-deductible

Answer: <https://biology-forums.com/index.php?topic=576245>

Question 937

The level of dividends a firm expects to pay is often directly related to how rapidly it expects to grow and expand its operations.

Answer: <https://biology-forums.com/index.php?topic=577229>

Question 938

The key outputs of the short-term financial planning process are the _____.

- A) cash budget, pro forma income statement, and pro forma balance sheet
- B) sales forecast and capital assets journal
- C) sales forecast and schedule of changes in working capital
- D) income statement, balance sheet, and source and use statement

Answer: <https://biology-forums.com/index.php?topic=575706>

Question 939

Which of the following is a nongovernmental issue?

- A) eurodollar deposit
- B) Treasury bill
- C) Treasury bond
- D) gilt fund

Answer: <https://biology-forums.com/index.php?topic=577567>

Question 940

The sales forecast and various forms of operating and financial data are the key outputs of the short-run (operating) financial planning.

Answer: <https://biology-forums.com/index.php?topic=575695>

Question 941

A firm has EBIT of \$375,000, interest expense of \$75,000, preferred dividends of \$6,000 and a tax rate of 40 percent. The firm's degree of financial leverage at a base EBIT level of \$375,000 is _____.

- A) 0.97
- B) 1.29
- C) 1.27
- D) 1.09

Answer: <https://biology-forums.com/index.php?topic=577054>

Question 942

The first step in the capital budgeting process is _____.

- A) review and analysis
- B) implementation
- C) decision making
- D) proposal generation

Answer: <https://biology-forums.com/index.php?topic=576693>

Question 943

For puts and calls, the exercise price is called _____.

- A) the expected value
- B) the market price of the stock
- C) the strike price
- D) the option price

Answer: <https://biology-forums.com/index.php?topic=577927>

Question 944

A direct lease is a lease under which the lessee sells an asset for cash to a prospective lessor and then leases back the same asset, making fixed periodic payments for its use.

Answer: <https://biology-forums.com/index.php?topic=577775>

Question 945

When making a cash acquisition of a going concern, the acquiring corporation should _____.

- A) adjust after-tax cash flows generated from new assets
- B) recognize different accounting techniques
- C) adjust the discount rate for risk differences
- D) consider the problems of assimilating the acquired management

Answer: <https://biology-forums.com/index.php?topic=578064>

Question 946

The acquiring firm pays a price that is a premium above the market price of the acquired firm. This means that the ratio of exchange in market price is _____.

- A) less than 1
- B) greater than 1
- C) 0, because the ratio of exchange results in no increase or decrease of shares
- D) equal to 1

Answer: <https://biology-forums.com/index.php?topic=578069>

Question 947

Given the following expected returns and standard deviations of assets B, M, Q, and D, which asset should the prudent financial manager select?

- A) Asset B
- B) Asset M
- C) Asset Q
- D) Asset D

Answer: <https://biology-forums.com/index.php?topic=576409>

Question 948

The expected value and the standard deviation of returns for asset A is _____. (See below.)

Asset A

- A) 12 percent and 4 percent
- B) 12.7 percent and 2.3 percent
- C) 12.7 percent and 4 percent
- D) 12 percent and 2.3 percent

Answer: <https://biology-forums.com/index.php?topic=576407>

Question 949

As the typical cash budget shows cash flows only on a monthly basis, the information provided by the cash budget is not necessarily adequate for ensuring solvency.

Answer: <https://biology-forums.com/index.php?topic=575726>

Question 950

When managing accounts receivable, a good strategy would be to _____.

- A) send the accounts to a collection agency to extract payments
- B) tighten the credit terms to force the customer to pay on time
- C) offer cash discount without losing sales and imposing burden on customer
- D) make frequent personal visits to the customer to remind him about his dues

Answer: <https://biology-forums.com/index.php?topic=577542>

Question 951

A firm has prepared the coming year's pro forma balance sheet resulting in a plug figure in a preliminary statement—called the external financing required—of negative \$250,000. The firm may prepare to _____.

- A) sell common stock totaling \$250,000
- B) arrange for a loan of \$250,000
- C) do nothing; the balance sheet balances
- D) invest in marketable securities totaling \$250,000

Answer: <https://biology-forums.com/index.php?topic=575762>

Question 952

A financial analyst is responsible for maintaining and controlling a firm's daily cash balances.

Answer: <https://biology-forums.com/index.php?topic=575212>

Question 953

Future value increases with increases in the interest rate or the period of time funds are left on deposit.

Answer: <https://biology-forums.com/index.php?topic=575776>

Question 954

When current assets exceed current liabilities, a firm has negative net working capital.

Answer: <https://biology-forums.com/index.php?topic=577298>

Question 955

The bird-in-the-hand argument espousing the importance of dividends or dividend relevance suggests that investors view current dividends as less risky than future dividends or capital gains.

Answer: <https://biology-forums.com/index.php?topic=577210>

Question 956

A flat yield curve means that the rates do not vary much at different maturities.

Answer: <https://biology-forums.com/index.php?topic=575950>

Question 957

In international trade, transfer prices are prices that subsidiaries charge each other for the goods and services traded between them.

Answer: <https://biology-forums.com/index.php?topic=576901>

Question 958

_____ refers to funds that have been dispatched by a payer but are not in a form that can be spent by the payee.

- A) Banker's acceptance
- B) Float
- C) A direct send
- D) Lockbox

Answer: <https://biology-forums.com/index.php?topic=577543>

Question 959

The creation of a portfolio by combining two assets having perfectly positively correlated returns cannot reduce the portfolio's overall risk below the risk of the least risky asset.

Answer: <https://biology-forums.com/index.php?topic=576441>

Question 960

The board of directors is typically responsible for _____.

- A) approving strategic goals and plans
- B) managing day-to-day operations
- C) arranging finance for approved long-term investments
- D) maintaining and controlling the firm's daily cash balances

Answer: <https://biology-forums.com/index.php?topic=575331>

Question 961

A proxy statement gives shareholders the right _____.

- A) of one vote for each share owned
- B) to give up their vote to another party
- C) to maintain their proportionate ownership in the corporation when new common stock is issued
- D) to sell their share of stock at a premium

Answer: <https://biology-forums.com/index.php?topic=576252>

Question 962

The capital budgeting process consists of five distinct but interrelated steps: proposal generation, review and analysis, decision making, implementation, and follow-up.

Answer: <https://biology-forums.com/index.php?topic=576662>

Question 963

The decision to refund a callable bond _____.

- A) should be made only if interest rates have increased
- B) is a net working capital decision
- C) is a capital budgeting decision
- D) is an investing decision

Answer: <https://biology-forums.com/index.php?topic=576093>

Question 964

Securitization made it harder for banks to lend money because they could not pass the risk on to other investors.

Answer: <https://biology-forums.com/index.php?topic=575399>

Question 965

Benefits expected from proposed capital expenditures _____.

- A) must be on a pre-tax basis because it provides the true position of profits by the firm
- B) must be on an after-tax basis because no benefits may be used until tax claims are satisfied
- C) may be valued either on pre-tax or after-tax basis based on the size of the firm
- D) are independent of interest and taxes

Answer: <https://biology-forums.com/index.php?topic=576875>

Question 966

Cash budgets and pro forma statements are useful not only for internal financial planning but also are routinely required by the Internal Revenue Service (IRS).

Answer: <https://biology-forums.com/index.php?topic=575715>

Question 967

The cash conversion cycle of a firm is the difference between the number of days resources are tied up in the operating cycle and the average number of days the firm can delay making payment on the production inputs purchased on credit.

Answer: <https://biology-forums.com/index.php?topic=577329>

Question 968

Nico is the new assistant branch manager of a larger Florida-based bank and the branch manager has asked him a question to test his knowledge.

The question he asked is which rate should the bank advertise on monthly-compounded loans, the nominal annual percentage rate or the effective annual percentage rate? Which rate should the bank advertise on quarterly-compounded savings accounts? Explain. As a consumer, which would you prefer to see and why?

Answer: <https://biology-forums.com/index.php?topic=575868>

Question 969

In CAPM, the total risk is defined as the sum of nondiversifiable and diversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=576917>

Question 970

The inexpensive nature of long-term debt in a firm's capital structure is due to the fact that _____.

- A) the debt holders are the true owners of the firm
- B) equity capital has a fixed return
- C) long-term debt has a fixed return and a maturity date
- D) dividend payments are tax-deductible

Answer: <https://biology-forums.com/index.php?topic=577101>

Question 971

The motive for divestiture includes _____.

- A) employee stock option
- B) additional debt by the parent company
- C) cash generation for expansion
- D) additional stock to the parent company

Answer: <https://biology-forums.com/index.php?topic=578042>

Question 972

Companies involved in international capital budgeting projects can minimize the long-term currency risk by financing the foreign investment at least partly in the local capital markets.

Answer: <https://biology-forums.com/index.php?topic=576824>

Question 973

A(n) _____ gives purchasers inflation protection.

- A) zero-coupon bond
- B) junk bond
- C) floating rate bond
- D) income bond

Answer: <https://biology-forums.com/index.php?topic=576071>

Question 974

A firm's capital structure can significantly affect the firm's value by affecting its risk and return.

Answer: <https://biology-forums.com/index.php?topic=577070>

Question 975

Fixed assets that provide the basis for a firm's earning and value are often called _____.

- A) tangible assets
- B) noncurrent assets
- C) earning assets
- D) book assets

Answer: <https://biology-forums.com/index.php?topic=576688>

Question 976

Acquisitions are especially attractive when a target firm's stock price is high, because fewer shares must be exchanged to acquire the firm.

Answer: <https://biology-forums.com/index.php?topic=578059>

Question 977

To expand its operation, International Tools Inc. has applied to the International Bank for a 3-year, \$3,500,000 loan. Prepare a loan amortization table assuming 10 percent rate of interest.

Answer: <https://biology-forums.com/index.php?topic=575934>

Question 978

The _____ measures the amount of time it takes a firm to recover its initial investment.

- A) profitability index
- B) internal rate of return
- C) net present value
- D) payback period

Answer: <https://biology-forums.com/index.php?topic=576723>

Question 979

Reliable Auto Parts has 5,000 shares of common stock outstanding. The company also has the following amounts in revenue and expense accounts. Calculate

- (a) gross profits.
- (b) operating profits.
- (c) net profits before taxes.
- (d) net profits after taxes (assume a 40 percent tax rate).

(e) earnings available to common stockholders.

(f) earnings per share.

Answer: <https://biology-forums.com/index.php?topic=575503>

Question 980

Consider the following projects, X and Y where the firm can only choose one. Project X costs \$600 and has cash flows of \$400 in each of the next 2 years. Project Y also costs \$600, and generates cash flows of \$500 and \$275 for the next 2 years, respectively. Which investment should the firm choose if the cost of capital is 25 percent?

A) Project X, since it has a higher NPV than Project Y

B) Project Y, since it has a higher NPV than Project X

C) neither, since both the projects have negative NPV

D) neither, since both the projects have positive NPV

Answer: <https://biology-forums.com/index.php?topic=576780>

Question 981

If a lease meets any of the FASB Standards No. 13 criteria, it should be shown as a capitalized lease, meaning the present value of all its payments should be included as an asset and corresponding liability on a firm's balance sheet.

Answer: <https://biology-forums.com/index.php?topic=577783>

Question 982

The actual ratio of exchange in a stock-exchange acquisition is the ratio of the amount paid per share of the target company to the per-share market price of the acquiring firm.

Answer: <https://biology-forums.com/index.php?topic=578054>

Question 983

At the quarterly meeting of Tangshan Mining Corporation, held on September 10th, the directors declared a \$1.00 per share dividend for the firm's 100,000 shares of common stock outstanding. The net effect of declaring and paying this dividend would be to _____.

A) decrease total assets by \$100,000 and increase stockholders equity by \$100,000

B) decrease total assets by \$100,000 and decrease stockholders equity by \$100,000

C) increase total assets by \$100,000 and increase stockholders equity by \$100,000

D) increase total assets by \$100,000 and decrease stockholders equity by \$100,000

Answer: <https://biology-forums.com/index.php?topic=577200>

Question 984

Jannet Company, currently pays its employees at the end of a week. The weekly payroll totals \$400,000. If it were to extend the pay period so as to pay its employees 1 week later throughout an entire year, the employees would in effect be lending the firm _____ for a year.

A) \$400,000

B) \$20,800,000

C) \$4,800,000

D) \$675,000

Answer: <https://biology-forums.com/index.php?topic=577624>

Question 985

For calculating payback period for an annuity, all cash flows must be adjusted for time value of money.

Answer: <https://biology-forums.com/index.php?topic=576706>

Question 986

The tax treatment regarding the sale of existing assets that are sold for more than the book value but less than the original purchase price results in a(n) _____.

A) ordinary tax benefit

B) capital gain tax liability

C) recaptured depreciation taxed as ordinary income

D) capital gain tax liability and recaptured depreciation taxed as ordinary income

Answer: <https://biology-forums.com/index.php?topic=576857>

Question 987

_____ are short-term money market instruments that can be easily converted into cash.

A) Preferred stocks

B) Treasury bonds

- C) Accounts receivable
- D) Marketable securities

Answer: <https://biology-forums.com/index.php?topic=577556>

Question 988

The College Copy Shop is in process of purchasing a high-tech copier. In its search, it has gathered the following information about two possible copiers A and B.

- (a) Compute expected rate of return for each copier.
- (b) Compute variance and standard deviation of rate of return for each copier.
- (c) Which copier should they purchase?

Answer: <https://biology-forums.com/index.php?topic=576414>

Question 989

Operating cash flow (OCF) is calculated by deducting depreciation from net operating profit after taxes.

Answer: <https://biology-forums.com/index.php?topic=575657>

Question 990

A(n) _____ provides a financial summary of a firm's operating results during a specified period.

- A) income statement
- B) balance sheet
- C) statement of cash flows
- D) statement of retained earnings

Answer: <https://biology-forums.com/index.php?topic=575474>

Question 991

Consolidation involves the combination of two or more firms, and the resulting firm maintains the identity of one of the firms.

Answer: <https://biology-forums.com/index.php?topic=577954>

Question 992

The interest rate on a line of credit is normally stated as a fixed rate-the prime rate.

Answer: <https://biology-forums.com/index.php?topic=577629>

Question 993

An decrease in the current liabilities to total assets ratio will result in _____.

- A) an increase in risk
- B) an increase in profit
- C) a decrease in risk
- D) a decrease in profit

Answer: <https://biology-forums.com/index.php?topic=577377>

Question 994

Which of the following is a means of selling bonds or stocks to the public?

- A) private placement
- B) public offering
- C) organized selling
- D) direct placement

Answer: <https://biology-forums.com/index.php?topic=575363>

Question 995

Net working capital is defined as _____.

- A) total assets minus total liabilities
- B) total liabilities minus total assets
- C) current liabilities minus current assets
- D) current assets minus current liabilities

Answer: <https://biology-forums.com/index.php?topic=577309>

Question 996

Discuss the limitations of ratio analysis and the cautions which must be taken when reviewing a cross-sectional and time-series analysis.

Answer: <https://biology-forums.com/index.php?topic=575543>

Question 997

If the net present value of the target company is _____.

- A) lesser than zero, the merger is acceptable
- B) greater than zero, the merger is acceptable
- C) greater than zero, the merger is rejected
- D) equal to zero, the merger is acceptable

Answer: <https://biology-forums.com/index.php?topic=578063>

Question 998

A firm produces goods which has high sales when the economy is expanding and low sales during a recession. This firm's overall risk will be higher if it invests in another product which is counter cyclical.

Answer: <https://biology-forums.com/index.php?topic=576438>

Question 999

A firm is analyzing a relaxation of credit standards that is expected to increase sales 10 percent. The firm is currently selling 400 units at an average sale price per unit of \$575, and the variable cost per unit is \$400 at the current sales volume. The average cost per unit is \$425. What is the additional profit contribution from sales if credit standards are relaxed?

- A) \$23,000
- B) \$16,000
- C) \$6,000
- D) \$7,000

Answer: <https://biology-forums.com/index.php?topic=577480>

Question 1000

The Oxford Heating Company has been very successful in the past four years. Over these years, it paid common stock dividend of \$4 in the first year, \$4.20 in the second year, \$4.41 in the third year, and its most recent dividend was \$4.63. The company wishes to continue this dividend growth indefinitely. What is the value of the company's stock if the required rate of return is 12 percent?

Answer: <https://biology-forums.com/index.php?topic=576318>

Question 1001

Preferred stock is considered a hybrid security because it blends the characteristics of both debt and equity.

Answer: <https://biology-forums.com/index.php?topic=577758>

Question 1002

The _____ of a firm is the amount of time required for a company to convert cash invested in its operations to cash received as a result of its operations.

- A) cash turnover
- B) cash conversion cycle
- C) average age of inventory
- D) average collection period

Answer: <https://biology-forums.com/index.php?topic=577346>

Question 1003

Projects with a small chance of being acceptable and a broad range of possible cash flows are riskier than projects having a high chance of being acceptable and a narrow range of possible cash flows.

Answer: <https://biology-forums.com/index.php?topic=576885>

Question 1004

A beta coefficient of 0 represents an asset that _____.

- A) is more responsive than the market portfolio
- B) has the same response as the market portfolio
- C) is less responsive than the market portfolio
- D) is unrelated to the market portfolio

Answer: <https://biology-forums.com/index.php?topic=576479>

Question 1005

A firm with sales of \$1,000,000, net profits after taxes of \$30,000, total assets of \$1,500,000, and common stockholders' investment of \$750,000 has a return on equity of _____.

- A) 20 percent
- B) 15 percent
- C) 3 percent
- D) 4 percent

Answer: <https://biology-forums.com/index.php?topic=575602>

Question 1006

Key Financial Data

Income Statement, Dreamscape, Inc.

For the Year Ended December 31, 2013

Prepare a common-size income statement for Dreamscape, Inc. for the year ended December 31, 2013. Evaluate the company's performance against industry average ratios and against last year's results.

Answer: <https://biology-forums.com/index.php?topic=575606>

Question 1007

_____ is the price at which a bond would sell in the market without the conversion feature.

- A) Conversion value
- B) Straight bond value
- C) Strike price value
- D) Market premium

Answer: <https://biology-forums.com/index.php?topic=577864>

Question 1008

Which of the following is true of risk-return trade off?

- A) Risk can be measured on the basis of variability of return.
- B) Risk and return are inversely proportional to each other.
- C) T-bills are more riskier than equity due to imbalances in government policies.
- D) Riskier investments tend to have lower returns.

Answer: <https://biology-forums.com/index.php?topic=576363>

Question 1009

A partnership under which the participants have contractually agreed to contribute specified amounts of money and expertise in exchange for stated proportions of ownership and profit is called a(n) _____.

- A) S corporation
- B) GmbH
- C) S.A.R.L.
- D) joint venture

Answer: <https://biology-forums.com/index.php?topic=578166>

Question 1010

Which of the following ratios is difficult for the creditors of a firm to analyze from the published financial statements?

- A) debt equity ratio
- B) average payment period
- C) quick ratio
- D) total asset turnover

Answer: <https://biology-forums.com/index.php?topic=575572>

Question 1011

The minimum return that must be earned on a project in order to leave the firm's value unchanged is _____.

- A) the internal rate of return
- B) the interest rate
- C) the cost of capital
- D) the compound rate

Answer: <https://biology-forums.com/index.php?topic=576751>

Question 1012

Short-term financial plans and long-term financial plans generally cover periods ranging from _____ years and _____ years, respectively.

- A) one to two; two to ten
- B) five to ten; ten to twenty

- C) zero to one; five to ten
- D) one to ten; ten to fifteen

Answer: <https://biology-forums.com/index.php?topic=575698>

Question 1013

Which the following is true of stock purchase warrants?

- A) When a firm makes a large issue of debt, the attachment of stock purchase warrants may deteriorate the marketability of the issue.
- B) Warrants are similar to conversion features on debt.
- C) Suppliers of debt are more likely to require warrants on an issue of debt from an existing corporation than from a new firm.
- D) The attachment of warrants increases the required interest rate.

Answer: <https://biology-forums.com/index.php?topic=577906>

Question 1014

The present value of a \$25,000 perpetuity at a 14 percent discount rate is _____.

- A) \$178,571
- B) \$285,000
- C) \$350,000
- D) \$219,298

Answer: <https://biology-forums.com/index.php?topic=575799>

Question 1015

If a bond's required return always equals its coupon interest rate, the bond's value will remain at par until it matures.

Answer: <https://biology-forums.com/index.php?topic=576150>

Question 1016

Average payment period can be calculated as accounts payable divided by average purchases per day.

Answer: <https://biology-forums.com/index.php?topic=575554>

Question 1017

An attractive candidate for acquisition through leveraged buyout must have a good position in its industry with a solid profit history and reasonable expectation for growth.

Answer: <https://biology-forums.com/index.php?topic=578016>

Question 1018

Monte Carlo simulation programs usually build a histogram of the results.

Answer: <https://biology-forums.com/index.php?topic=576895>

Question 1019

Generally, the greater a firm's times interest earned ratio, the less able it is to meet payments as they come due.

Answer: <https://biology-forums.com/index.php?topic=577069>

Question 1020

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

4) A debtor in possession in a Chapter 11 bankruptcy proceeding is responsible for valuing the bankrupt firm both in terms of its liquidation value and as a going concern.

Answer: <https://biology-forums.com/index.php?topic=578135>

Question 1021

The creation of a high-debt, private corporation with improved cash flow and value is the goal in _____.

- A) a spin-off
- B) a divestiture
- C) a conglomerate merger
- D) a leveraged buyout

Answer: <https://biology-forums.com/index.php?topic=578037>

Question 1022

_____ generally reflect(s) the anticipated financial impact of planned long-term actions.

- A) A cash budget
- B) Strategic financial plans
- C) Operating financial plans
- D) A pro forma income statement

Answer: <https://biology-forums.com/index.php?topic=575704>

Question 1023

If a firm's earnings remain constant and total cash dividends do not increase, a stock dividend results in a lower per-share market value for the firm's stock.

Answer: <https://biology-forums.com/index.php?topic=577269>

Question 1024

Which of the following is a reason why equity capital is considered riskier than debt capital?

- A) Equity capital has a higher priority claim against assets and earnings.
- B) Equity capital requires regular periodic payments in the form of dividends.
- C) Equity capital expects dividend payments which are not tax-deductible.
- D) Equity capital remains invested in a firm indefinitely.

Answer: <https://biology-forums.com/index.php?topic=577100>

Question 1025

Beginning with a zero-leverage company, as debt is substituted for equity in the capital structure _____.

- A) the overall cost of capital first rises, reaches a maximum, and then declines
- B) the overall cost of capital declines
- C) the overall cost of capital first declines, reaches a minimum, and then rises
- D) the overall cost of capital rises

Answer: <https://biology-forums.com/index.php?topic=577135>

Question 1026

Informational content of dividends throws light with respect to future earnings. In other words, investors view a change in dividends, up or down, as a signal that management expects future earnings to change in the same direction.

Answer: <https://biology-forums.com/index.php?topic=577211>

Question 1027

The original price per share received by the firm on a single issue of common stock is equal to the sum of the common stock and paid-in capital in excess of par accounts divided by the number of shares outstanding.

Answer: <https://biology-forums.com/index.php?topic=575458>

Question 1028

The value of an asset depends on the historical cash flow(s) up to the present time.

Answer: <https://biology-forums.com/index.php?topic=576099>

Question 1029

The present value of \$100 received at the end of year 1, \$200 received at the end of year 2, and \$300 received at the end of year 3, assuming an opportunity cost of 13 percent, is _____.

- A) \$ 453
- B) \$ 416
- C) \$1,181
- D) \$ 500

Answer: <https://biology-forums.com/index.php?topic=575838>

Question 1030

Efficient-market hypothesis is the theory describing the behavior of an assumed "perfect" market in which securities are typically in equilibrium, security prices fully reflect all public information available and react swiftly to new information, and, because stocks are fairly priced, investors need not waste time looking for mispriced securities.

Answer: <https://biology-forums.com/index.php?topic=576282>

Question 1031

A lease under which a lessor acts as an equity participant, supplying only about 20 percent of the cost of the asset, while a lender supplies the balance is called a(n)_____.

- A) operating lease
- B) leveraged lease
- C) sale-leaseback arrangement
- D) direct lease

Answer: <https://biology-forums.com/index.php?topic=577804>

Question 1032

In the grossing up procedure, MNCs add the before-tax subsidiary income to their total taxable income, calculate the U.S. tax liability on the grossed-up income, and the related taxes are paid in the foreign country are applied as a credit against the additional U.S. tax liability.

Answer: <https://biology-forums.com/index.php?topic=578162>

Question 1033

In April, a firm had an ending cash balance of \$35,000. In May, the firm had total cash receipts of \$40,000 and total cash disbursements of \$50,000. The minimum cash balance required by the firm is \$25,000. At the end of May, the firm had _____.

- A) an excess cash balance of \$25,000
- B) an excess cash balance of \$0
- C) required financing of \$10,000
- D) required financing of \$25,000

Answer: <https://biology-forums.com/index.php?topic=575741>

Question 1034

A(n) _____ lease is a contractual arrangement whereby the lessee agrees to make periodic payments to the lessor for five or fewer years for an asset's services. This type of lease may also be canceled at the option of the lessee.

- A) financial
- B) operating
- C) capital
- D) direct

Answer: <https://biology-forums.com/index.php?topic=577792>

Question 1035

Ms. Day needs \$20,000 to buy her dream car. In her search for the best (low cost) loan, she has gathered the following information from three local banks. Which bank would you recommend Ms. Day borrow from?

Answer: <https://biology-forums.com/index.php?topic=575924>

Question 1036

The lower a bond's default risk, the higher is the interest rate.

Answer: <https://biology-forums.com/index.php?topic=576012>

Question 1037

Leasing is considered a source of financing provided by the lessee to the lessor.

Answer: <https://biology-forums.com/index.php?topic=577768>

Question 1038

In doing business in foreign countries, financing operations in the local market not only improves the company's business ties to the host community but also minimizes exchange rate risk.

Answer: <https://biology-forums.com/index.php?topic=577695>

Question 1039

In a voluntary settlement, one group of creditors having claims of \$1,000,000 will be immediately paid 95 cents on a dollar. The remainder of the creditors will postpone payment an additional 60 days. This is an example of _____.

- A) a composition
- B) a combination of a composition and extension
- C) an extension
- D) a liquidation

Answer: <https://biology-forums.com/index.php?topic=578128>

Question 1040

Tangshan Mining Company must choose its optimal capital structure. Currently, the firm has a 40 percent debt ratio and the firm expects to generate a dividend next year of \$4.89 per share and dividends are expected to grow at a constant rate of 5 percent for the foreseeable future. Stockholders currently require a 10.89 percent return on their investment. Tangshan Mining is considering changing its capital structure if it would benefit shareholders. The firm estimates that if it increases the debt ratio to 50 percent, it will increase its expected dividend to \$5.24 per share. Because of the additional leverage, dividend growth is expected to increase to 6 percent and this growth will be sustained indefinitely. However, because of the added risk, the required return demanded by stockholders will increase to 11.34 percent.

- (a) What is the value per share for Tangshan Mining under the current capital structure?
- (b) What is the value per share for Tangshan Mining under the proposed capital structure?
- (c) Should Tangshan Mining make the capital structure change? Explain.

Answer: <https://biology-forums.com/index.php?topic=577162>

Question 1041

Since the purchaser of a convertible security is given an opportunity to become a common stockholder, convertibles can normally be sold with higher interest rates than nonconvertibles.

Answer: <https://biology-forums.com/index.php?topic=577829>

Question 1042

Firms do not usually get rewarded by diversifying investments in different lines of business because _____.

- A) the capital markets are efficient and they quickly respond to change in economic conditions
- B) cash flows from such projects tend to respond less to changing economic conditions
- C) investors themselves can diversify by holding securities in a variety of firms; they do not need the firm to do it for them
- D) it is not possible for a firm to diversify its risk as the inflation premium is different for different projects

Answer: <https://biology-forums.com/index.php?topic=576935>

Question 1043

The degree of financial leverage is the ratio of _____ to percentage change in EBIT.

- A) operating profit
- B) percentage change in sales
- C) percentage change in EPS
- D) long-term debt

Answer: <https://biology-forums.com/index.php?topic=577046>

Question 1044

A(n) _____ in current assets increases net working capital, thereby _____ the risk of insolvency.

- A) decrease; increasing
- B) increase; increasing
- C) increase; reducing
- D) decrease; reducing

Answer: <https://biology-forums.com/index.php?topic=577315>

Question 1045

An ordinary annuity is an annuity in which cash flows occur at the beginning of each period.

Answer: <https://biology-forums.com/index.php?topic=575796>

Question 1046

A firm's flotation cost can be calculated by weighting the cost of each source of financing by its relative proportion in a firm's target capital structure.

Answer: <https://biology-forums.com/index.php?topic=576542>

Question 1047

Lenders recognize that by having an interest in collateral they can reduce losses if the borrowing firm defaults, _____.

- A) and the presence of collateral reduces the risk of default
- B) but the presence of collateral has no impact on the risk of default
- C) therefore lenders prefer to lend to customers from whom they are able to demand collateral
- D) therefore lenders will impose a higher interest rate on unsecured long-term borrowing

Answer: <https://biology-forums.com/index.php?topic=577743>

Question 1048

At the time of issuance, the issuer of a convertible security normally establishes a conversion price _____.

- A) below the current book value of the firm's stock
- B) equal to the current market price of the firm's stock
- C) above the current market price of the firm's stock
- D) above the current book value of the firm's stock

Answer: <https://biology-forums.com/index.php?topic=577841>

Question 1049

Two frequently cited ratios of profitability that can be read directly from the common-size income statement are _____.

- A) the earnings per share and the return on total assets
- B) the gross profit margin and the earnings per share
- C) the gross profit margin and the return on total assets
- D) the gross profit margin and the net profit margin

Answer: <https://biology-forums.com/index.php?topic=575594>

Question 1050

The yields on negotiable certificates of deposit are typically above those on U.S. Treasury issues and comparable to the yields on commercial paper with similar maturities.

Answer: <https://biology-forums.com/index.php?topic=577536>

Question 1051

Initial cash outflows and subsequent operating cash inflows for a project are referred to as _____.

- A) necessary cash flows
- B) relevant cash flows
- C) perpetual cash flows
- D) ordinary cash flows

Answer: <https://biology-forums.com/index.php?topic=576815>

Question 1052

Most money market transactions are made in _____.

- A) common stock
- B) marketable securities
- C) commodities market
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=575389>

Question 1053

A corporation has \$5,000,000 of 8 percent preferred stock outstanding and a 40 percent tax rate. The after-tax cost of the preferred stock is _____.

- A) \$400,000
- B) \$240,000
- C) \$666,667
- D) \$160,000

Answer: <https://biology-forums.com/index.php?topic=577118>

Question 1054

A decrease in fixed financial costs will result in a(n)_____.

- A) increase in financial risk
- B) decrease in financial risk
- C) increase in operating leverage
- D) decrease in operating leverage

Answer: <https://biology-forums.com/index.php?topic=577106>

Question 1055

Combining two assets having perfectly positively correlated returns will result in the creation of a portfolio with an overall risk that _____.

- A) remains unchanged
- B) decreases to a level below that of either asset
- C) increases to a level above that of either asset
- D) lies between the asset with the higher risk and the asset with the lower risk

Answer: <https://biology-forums.com/index.php?topic=576451>

Question 1056

Which of the following major variables should be considered when evaluating proposed changes in credit standards?

- A) level of inventories
- B) accounts payable
- C) level of liquid assets
- D) bad debt expenses

Answer: <https://biology-forums.com/index.php?topic=577478>

Question 1057

The beta of a portfolio is a function of the standard deviations of the individual securities in the portfolio, the proportion of the portfolio invested in those securities, and the correlation between the returns of those securities.

Answer: <https://biology-forums.com/index.php?topic=576466>

Question 1058

The major purpose of the Sarbanes-Oxley Act of 2002 was to place caps on the compensation that could be paid to corporate executives.

Answer: <https://biology-forums.com/index.php?topic=575326>

Question 1059

If an investor buys a 100-share put option for \$400 with an exercise price of \$40 and the underlying price per share of the stock at expiration is \$32, what is the amount of profit or loss, ignoring brokerage fees?

- A) There would be a profit of \$800.
- B) There would be a profit of \$400.
- C) There would be a loss of \$400.
- D) There would be a loss of \$800.

Answer: <https://biology-forums.com/index.php?topic=577936>

Question 1060

Holding companies are corporations that have voting control of one or more other corporations and the companies they control are referred to as subsidiaries.

Answer: <https://biology-forums.com/index.php?topic=577952>

Question 1061

A firm which uses the aggressive financing strategy plans to purchase raw materials in large quantities to take price discounts. The firm will finance the purchase with a long-term loan. The most likely consequence of this action is _____.

- A) a decrease in the current ratio
- B) an increase in net working capital
- C) an increase in risk of insolvency
- D) a decrease in net working capital

Answer: <https://biology-forums.com/index.php?topic=577397>

Question 1062

If an investment in a new asset results in a change in current assets that exceeds the change in current liabilities, this change in net working capital represents an initial cash outflow.

Answer: <https://biology-forums.com/index.php?topic=576835>

Question 1063

A security experiencing little or no loss in value over time is said to have a _____.

- A) safety of return
- B) safety of principal
- C) safety of maturity
- D) risk of payments

Answer: <https://biology-forums.com/index.php?topic=577573>

Question 1064

A decrease in the production time to manufacture a finished good will result in _____.

- A) an increase in the average age of inventory
- B) a decrease in the cash conversion cycle
- C) an increase in the cash conversion cycle

D) a decrease in the average age of inventory

Answer: <https://biology-forums.com/index.php?topic=577380>

Question 1065

Strategic mergers seek to achieve various economies of scale by eliminating redundant functions, increasing market share, and improving raw material sourcing and finished product distribution.

Answer: <https://biology-forums.com/index.php?topic=577957>

Question 1066

Danno is trying to decide which of two bonds to buy. Bond H is a 10 percent coupon, 10-year maturity, \$1,000 par, January 1, 2000 issue paying annual interest. Bond F is a 10 percent coupon, 10-year maturity, \$1,000 par, January 1, 2000 issue paying semiannual interest. The market required return for each bond is 10 percent. When using present value to determine the prices of the bonds, Danno will find that _____.

- A) there is no difference in price
- B) the price of F is greater than H
- C) the price of H is greater than F
- D) he needs more information before determining the prices.

Answer: <https://biology-forums.com/index.php?topic=576128>

Question 1067

Net working capital can be defined as the portion of a firm's current assets financed with long-term funds.

Answer: <https://biology-forums.com/index.php?topic=577299>

Question 1068

The residual theory of dividends, as espoused by Modigliani and Miller, suggests that dividends represent an earnings residual rather than an active decision variable that affects firm value; this means that a firm's decision to pay dividends or not will not have any impact on a firm's share price.

Answer: <https://biology-forums.com/index.php?topic=577203>

Question 1069

Which of the following assists companies in raising capital, advise firms on major transactions such as mergers or financial restructuring, and engage in trading and market making activities?

- A) investment banks
- B) securities exchanges
- C) mutual funds
- D) commercial banks

Answer: <https://biology-forums.com/index.php?topic=575356>

Question 1070

A normal yield curve is upward-sloping and indicates generally cheaper short-term borrowing costs than long-term borrowing costs.

Answer: <https://biology-forums.com/index.php?topic=575951>

Question 1071

Assume Julian has a choice between two deposit accounts. Account A has an annual percentage rate of 7.55 percent but with interest compounded monthly. Account B has an annual percentage rate of 7.45 percent with interest compounded continuously. Which account provides the highest effective annual return?

- A) Account A
- B) Account B
- C) Both provide the same effective annual return
- D) We don't have sufficient information to make a choice

Answer: <https://biology-forums.com/index.php?topic=575863>

Question 1072

If a firm has limited funds to invest, all the mutually exclusive projects that meet its minimum investment criteria should be implemented.

Answer: <https://biology-forums.com/index.php?topic=576671>

Question 1073

How long would it take for Nico to save an adequate amount for retirement if he deposits \$40,000 per year into an account beginning one year from today that pays 12 percent per year if he wishes to have a total of \$1,000,000 at retirement?

- A) 12.2 years
- B) 15.7 years

C) 14.5 years

D) 16.5 years

Answer: <https://biology-forums.com/index.php?topic=575911>

Question 1074

A firm undertakes a merger in order to eliminate redundant functions or increase market share. This is an example of _____.

A) financial merger

B) divestiture

C) spin-off

D) strategic merger

Answer: <https://biology-forums.com/index.php?topic=577985>

Question 1075

A conversion feature in a bond has a greater chance of being exercised (to the detriment of the bondholder) if market interest rates have risen since the bond was issued.

Answer: <https://biology-forums.com/index.php?topic=576042>

Question 1076

The more certain the return from an asset, the less variability and therefore the less risk.

Answer: <https://biology-forums.com/index.php?topic=576386>

Question 1077

The Financial Accounting Standards Board (FASB) Standard No. 52 mandates that U.S.-based companies translate their foreign-currency-denominated assets and liabilities into dollars using the current rate (translation) method.

Answer: <https://biology-forums.com/index.php?topic=575463>

Question 1078

If a firm is subject to capital rationing, it has only a fixed number of dollars available for capital expenditures and numerous projects compete for these dollars.

Answer: <https://biology-forums.com/index.php?topic=576680>

Question 1079

The security market line (SML) reflects the required return in the marketplace for each level of nondiversifiable risk (beta).

Answer: <https://biology-forums.com/index.php?topic=576504>

Question 1080

Julian's Sports Equipment must decide whether to obtain \$1,000,000 of financing by selling common stock at its current price of \$40 per share or selling convertible bonds. The firm currently has 250,000 shares of common stock outstanding. Convertible bonds can be sold for their \$1,000 par value and would be convertible at \$45. The firm expects its earnings available to common stockholders to be \$700,000 each year over the next several years.

(a) Calculate the number of shares the firm would need to sell to raise the \$1,000,000.

(b) Calculate the earnings per share resulting from the sale of common stock.

(c) Calculate the number of shares outstanding once all bonds have been converted.

(d) Calculate the earnings per share associated with the bond financing after conversion.

(e) Which of the financing alternatives would you recommend the company adopt? Why?

Answer: <https://biology-forums.com/index.php?topic=577884>

Question 1081

The _____ is the rate of return required by the market suppliers of capital in order to attract their funds to the firm.

A) yield to maturity

B) internal rate of return

C) cost of capital

D) modified internal rate of return

Answer: <https://biology-forums.com/index.php?topic=576547>

Question 1082

The _____ annual rate is the annual rate of interest actually paid or earned. This reflects the effects of compounding frequency.

A) effective

B) nominal

- C) discounted
- D) continuous

Answer: <https://biology-forums.com/index.php?topic=575855>

Question 1083

If the required return is less than the coupon rate, a bond will sell at _____.

- A) par
- B) a discount
- C) a premium
- D) book value

Answer: <https://biology-forums.com/index.php?topic=576138>

Question 1084

A divestiture that results in an operating unit becoming an independent company is a _____.

- A) sale of a line of business
- B) strategic merger
- C) spin-off of an operating unit
- D) leveraged buyout

Answer: <https://biology-forums.com/index.php?topic=578045>

Question 1085

Although preferred stock provides added financial leverage in much the same way as bonds, it differs from bonds in that the issuer can pass a dividend payment without suffering the consequences that result when an interest payment is missed on a bond.

Answer: <https://biology-forums.com/index.php?topic=576201>

Question 1086

Calculate the present value of an annuity of \$3,900 each year for four years, assuming an opportunity cost of 10 percent.

Answer: <https://biology-forums.com/index.php?topic=575822>

Question 1087

The current yield on a bond is measured by _____.

- A) the annual interest payment divided by the current price
- B) the annual interest payment divided by the par value
- C) the annual interest payment divided by the maturity value
- D) the annual interest payment divided by the yield to maturity

Answer: <https://biology-forums.com/index.php?topic=576068>

Question 1088

_____ rate of interest is the actual rate charged by the supplier and paid by the demander of funds.

- A) Nominal
- B) Real
- C) Risk-free
- D) Inflationary

Answer: <https://biology-forums.com/index.php?topic=575971>

Question 1089

An increase in accounts receivable turnover due to an increase in collection efforts will decrease a firm's marginal investment in accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=577492>

Question 1090

The more seasonal and uncertain a firm's cash flows, the greater the number of intervals and the shorter time intervals.

Answer: <https://biology-forums.com/index.php?topic=575709>

Question 1091

Higher financial leverage causes _____ to increase more for a given increase in _____.

- A) EBIT; sales
- B) EPS; sales
- C) EPS; EBIT
- D) EBIT; EPS

Answer: <https://biology-forums.com/index.php?topic=577051>

Question 1092

One advantage of factoring accounts receivable is the ability it gives a firm to turn accounts receivable immediately into cash without having to worry about repayment.

Answer: <https://biology-forums.com/index.php?topic=577718>

Question 1093

Nico Trading Corporation is considering issuing long-term debt. The debt would have a 30-year maturity and a 10 percent coupon rate. In order to sell the issue, the bonds must be underpriced at a discount of 5 percent of face value. In addition, the firm would have to pay flotation costs of 5 percent of face value. The firm's tax rate is 35 percent. Given this information, the after-tax cost of debt for Nico Trading would be _____.

- A) 7.26%
- B) 11.17%
- C) 10.00%
- D) 9.00%

Answer: <https://biology-forums.com/index.php?topic=576580>

Question 1094

The size of a loan and its issuance costs (as a percentage of the amount borrowed) are _____.

- A) not related
- B) inversely related
- C) independent
- D) perfectly positively correlated

Answer: <https://biology-forums.com/index.php?topic=576030>

Question 1095

A _____ guarantees the borrower that a specified amount of funds will be available regardless of the scarcity of money.

- A) revolving credit agreement
- B) mortgage loan
- C) short-term, self-liquidating loan
- D) single payment note

Answer: <https://biology-forums.com/index.php?topic=577676>

Question 1096

Options are a special type of security that provides the holder with the right to purchase or sell specified assets at a stated price on or before a set expiration date.

Answer: <https://biology-forums.com/index.php?topic=577916>

Question 1097

Given the following balance sheet, income statement, historical ratios and industry averages, calculate the Pulp, Paper, and Paperboard, Inc. financial ratios for the most recent year. Analyze its overall financial situation for the most recent year. Analyze its overall financial situation from both a cross-sectional and time-series viewpoint. Break your analysis into an evaluation of the firm's liquidity, activity, debt, and profitability.

Income Statement
Pulp, Paper, and Paperboard, Inc.
For the Year Ended December 31, 2013
Balance Sheet
Pulp, Paper, and Paperboard, Inc.
December 31, 2013

Historical and Industry Average Ratios
Pulp, Paper and Paperboard, Inc.

Answer: <https://biology-forums.com/index.php?topic=575622>

Question 1098

The par value on a common stock is used as a basis for determining its fixed dividend.

Answer: <https://biology-forums.com/index.php?topic=576176>

Question 1099

A firm can raise capital by issuing securities such as convertibles, warrants, and calls and puts.

Answer: <https://biology-forums.com/index.php?topic=577924>

Question 1100

Average age of inventory can be calculated as inventory divided by 365.

Answer: <https://biology-forums.com/index.php?topic=575550>

Question 1101

The conversion feature, which can be part of either a bond or preferred stock, permits a firm to raise additional funds at some point in the future by selling common stock, thereby shifting the company's capital structure to a less highly levered position.

Answer: <https://biology-forums.com/index.php?topic=577833>

Question 1102

Cash flows associated with the purchase and sale of fixed assets and business interests are called cash flow from _____.

- A) operating activities
- B) investment activities
- C) financing activities
- D) equity activities

Answer: <https://biology-forums.com/index.php?topic=575673>

Question 1103

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ more operating leverage than an otherwise equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577094>

Question 1104

A firm has an outstanding bond with a \$1,000 par value that is convertible at \$40 per share of common stock. If the current market value of common stock per share is \$45, the conversion value of the bond is _____.

- A) \$880
- B) \$1,000
- C) \$1,125
- D) \$1,200

Answer: <https://biology-forums.com/index.php?topic=577868>

Question 1105

Standard debt provisions specify certain record keeping and general business practices that must be ensured by the bond issuer.

Answer: <https://biology-forums.com/index.php?topic=576000>

Question 1106

The objective for managing accounts receivable is to avoid credit sales as much as possible.

Answer: <https://biology-forums.com/index.php?topic=577450>

Question 1107

As fixed operating costs increase and all other factors are held constant, _____.

- A) the degree of operating leverage will increase
- B) the degree of operating leverage will decrease
- C) the degree of total leverage will decrease
- D) the degree of total leverage will increase

Answer: <https://biology-forums.com/index.php?topic=577041>

Question 1108

A _____ measures the dispersion around the expected value.

- A) coefficient of variation
- B) chi square
- C) mean
- D) standard deviation

Answer: <https://biology-forums.com/index.php?topic=576404>

Question 1109

Retained earnings on the balance sheet represents the _____.

- A) net profit after taxes
- B) amount of proceeds in excess of the par value received from the original sale of common stock
- C) net profit after taxes minus preferred dividends
- D) cumulative total of all earnings reinvested in the firm

Answer: <https://biology-forums.com/index.php?topic=575485>

Question 1110

Although several economic and political factors can influence foreign exchange rate movements, by far the most important explanation for long-term changes in exchange rates is fiscal policy that a country adopts.

Answer: <https://biology-forums.com/index.php?topic=578196>

Question 1111

A corporation has decided to replace an existing asset with a newer model. Two years ago, the existing asset originally cost \$70,000 and was being depreciated under MACRS using a five-year recovery period. The existing asset can be sold for \$30,000. The new asset will cost \$80,000 and will also be depreciated under MACRS using a five-year recovery period. If the assumed tax rate is 40 percent on ordinary income and capital gains, the initial investment is _____.

- A) \$48,560
- B) \$44,360
- C) \$49,240
- D) \$27,600

Answer: <https://biology-forums.com/index.php?topic=576868>

Question 1112

A firm with limited funds for investment in capital assets must ration those funds by allocating them to projects that will maximize share value.

Answer: <https://biology-forums.com/index.php?topic=576943>

Question 1113

In comparing the constant-growth model and the capital asset pricing model (CAPM) to calculate the cost of common stock equity, _____.

- A) the CAPM ignores risk, while the constant-growth model directly considers risk as reflected in the beta
- B) the CAPM directly considers risk as reflected in the beta, while the constant-growth model uses the market price as a reflection of the expected risk-return preference of investors
- C) the CAPM directly considers risk as reflected in the beta, while the constant growth model uses dividend expectations as a reflection of risk
- D) the CAPM indirectly considers risk as reflected in the market return, while the constant growth model uses dividend expectations as a reflection of risk

Answer: <https://biology-forums.com/index.php?topic=576629>

Question 1114

The weighted average cost of capital (WACC) reflects the expected average future cost of capital over the long run.

Answer: <https://biology-forums.com/index.php?topic=576638>

Question 1115

One basic technique used to evaluate after-tax operating cash flows is to _____.

- A) add noncash charges to net income
- B) subtract depreciation from operating revenues
- C) add cash expenses to net income
- D) subtract cash expenses from noncash charges

Answer: <https://biology-forums.com/index.php?topic=576876>

Question 1116

Given that the cost of common stock is 18 percent, dividends are \$1.50 per share and the price of the stock is \$12.50 per share, what is the annual growth rate of dividends?

- A) 4 percent
- B) 5 percent
- C) 6 percent
- D) 8 percent

Answer: <https://biology-forums.com/index.php?topic=576631>

Question 1117

2/15 net 45 translates as _____.

- A) 15 percent cash discount if paid in 2 days, net 45-day credit period
- B) 45 percent of account due in 15 days, payment prior to day 15 receives a 2 percent discount
- C) 2 percent cash discount if paid prior to 15 days, if customer does not take a cash discount, the balance is due in 45 days
- D) 2 percent of the balance is due in 15 days, the remaining balance is due in 45 days.

Answer: <https://biology-forums.com/index.php?topic=577500>

Question 1118

A firm has the following stockholders' equity balances:

In states where the firm's legal capital is defined as the par value of its common stock, the maximum cash dividend the firm could pay is _____.

- A) \$3,600,000
- B) \$400,000
- C) \$3,200,000
- D) \$1,600,000

Answer: <https://biology-forums.com/index.php?topic=577240>

Question 1119

Modigliani and Miller suggest that the value of a firm is not affected by the firm's dividend policy, due to _____.

- A) the relevance of dividends
- B) the clientele effect
- C) the informational content
- D) the optimal capital structure

Answer: <https://biology-forums.com/index.php?topic=577218>

Question 1120

Herbert has opened a retirement fund account which pays 7 percent interest and requires \$5,000 annual deposits. Herbert will retire in 15 years and expects 10 years of retirement life. What is the maximum annual retirement benefit Herbert can get during his retirement years?

Answer: <https://biology-forums.com/index.php?topic=575931>

Question 1121

The purpose of adding an asset with a negative or low positive beta is to _____.

- A) reduce profit
- B) reduce risk
- C) increase profit
- D) increase risk

Answer: <https://biology-forums.com/index.php?topic=576477>

Question 1122

Wealth maximization as the goal of a firm implies enhancing the wealth of _____.

- A) the auditors
- B) the creditors
- C) the federal reserve
- D) the firm's stockholders

Answer: <https://biology-forums.com/index.php?topic=575258>

Question 1123

In comparing the internal rate of return and net present value methods of evaluation, _____.

- A) internal rate of return is theoretically superior, but financial managers prefer net present value
- B) net present value is theoretically superior, but financial managers prefer to use internal rate of return
- C) financial managers prefer net present value, because it is presented as a rate of return
- D) financial managers prefer net present value, because it measures benefits relative to the amount invested

Answer: <https://biology-forums.com/index.php?topic=576810>

Question 1124

Ashley's Delivery Service is analyzing the credit terms of each of three suppliers, A, B, and C.

- (a) Determine the approximate cost of giving up the cash discount (assume a 360-day year).
- (b) Assuming the firm needs short-term financing, recommend whether or not the firm should give up the cash discount or borrow from the bank at 10 percent annual interest. Evaluate each supplier separately.

Answer: <https://biology-forums.com/index.php?topic=577615>

Question 1125

A firm can raise capital by issuing securities such as convertibles and warrants but a firm has nothing to do with the creation of options to raise capital.
Answer: <https://biology-forums.com/index.php?topic=577923>

Question 1126

Mutually exclusive projects are those whose cash flows are constant over a specified period of time and more than one project needs to be accepted in order to implement capital budgeting decisions.
Answer: <https://biology-forums.com/index.php?topic=576675>

Question 1127

_____ projects have the same function; the acceptance of one _____ the others from consideration.

- A) Capital; eliminates
- B) Independent; does not eliminate
- C) Mutually exclusive; eliminates
- D) Replacement; eliminates

Answer: <https://biology-forums.com/index.php?topic=576697>

Question 1128

The most stringent step in the collection process is _____.

- A) letters
- B) personal visits
- C) collection agencies
- D) legal action

Answer: <https://biology-forums.com/index.php?topic=577498>

Question 1129

If a corporation has an average tax rate of 40 percent, the approximate annual, after-tax cost of debt for a 10-year, 8 percent, \$1,000 par value bond selling at \$1,150 is _____.

- A) 3.6 percent
- B) 4.8 percent
- C) 6 percent
- D) 8 percent

Answer: <https://biology-forums.com/index.php?topic=576577>

Question 1130

The Public Company Accounting Oversight Board (PCAOB) _____.

- A) is a not-for-profit corporation that oversees auditors of public corporations
- B) is a not-for-profit corporation that oversees managers of public corporations
- C) is a for-profit corporation that oversees auditors of public corporations
- D) is a for-profit corporation that oversees managers of public corporations

Answer: <https://biology-forums.com/index.php?topic=575471>

Question 1131

Which of the following securities is a popular hybrid security?

- A) preferred stock
- B) common stock
- C) options
- D) futures

Answer: <https://biology-forums.com/index.php?topic=577762>

Question 1132

A _____ is when a firm acquires a supplier or a customer.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578005>

Question 1133

The marginal tax rate paid on a firm's ordinary income can be calculated by dividing its taxes by its net income.

Answer: <https://biology-forums.com/index.php?topic=575419>

Question 1134

According to the catering theory, firms cater to the preferences of _____.

- A) investors
- B) creditors
- C) managers
- D) government

Answer: <https://biology-forums.com/index.php?topic=577247>

Question 1135

A(n) _____ allows management to avoid or minimize losses on projects that turn bad.

- A) abandonment option
- B) growth option
- C) timing option
- D) put option

Answer: <https://biology-forums.com/index.php?topic=576946>

Question 1136

Leveraged buyouts are clear examples of _____.

- A) strategic mergers
- B) vertical mergers
- C) financial mergers
- D) congeneric mergers

Answer: <https://biology-forums.com/index.php?topic=578036>

Question 1137

The existence of specific regulations and controls on dollar deposits in the United States, including interest rate ceiling imposed by the government, has contributed to the growth of the Euromarket.

Answer: <https://biology-forums.com/index.php?topic=578154>

Question 1138

Large firms evaluate the merits of individual capital budgeting projects to ensure that the selected projects have the best chance of increasing the firm value.

Answer: <https://biology-forums.com/index.php?topic=576684>

Question 1139

The stated cost of a pledge of accounts receivable is normally _____ above the prime rate.

- A) 6 to 8 percent
- B) 2 to 5 percent
- C) 4 to 9 percent
- D) 6 to 10 percent

Answer: <https://biology-forums.com/index.php?topic=577737>

Question 1140

A stock purchase warrant permits a firm to raise additional funds at some point in the future by selling common stock and thereby shifting the firm's capital structure to a less highly levered position.

Answer: <https://biology-forums.com/index.php?topic=577895>

Question 1141

Which of the following methods can be utilized by a firm when it wants to purchase outstanding shares of common stock?

- A) a purchase of stock through private placement
- B) a tender offer at varying prices
- C) a tender offer at a specified price
- D) an European auction plan

Answer: <https://biology-forums.com/index.php?topic=577195>

Question 1142

The cost of capital is described as the rate of return required by the market suppliers of capital in order to attract their funds to the firm.
Answer: <https://biology-forums.com/index.php?topic=576535>

Question 1143

The cost of common stock equity is _____.
A) the cost of the guaranteed stated dividend expected by the stockholders
B) the rate at which investors discount the expected dividends of the firm to determine its share value
C) the after-tax cost of the interest obligations
D) the historical cost of floating the stock issue
Answer: <https://biology-forums.com/index.php?topic=576615>

Question 1144

If a firm decides to take the cash discount that is offered on goods purchased on credit, the firm should _____.
A) pay as soon as possible
B) pay on the last day of the credit period
C) not take the discount no matter when the firm actually pays
D) pay on or before the last day of the discount period
Answer: <https://biology-forums.com/index.php?topic=577603>

Question 1145

The president or chief executive officer is elected by a firm's stockholders and has ultimate authority to guide corporate affairs and make general policy.
Answer: <https://biology-forums.com/index.php?topic=575325>

Question 1146

_____ mainly explains the tendency for the yield curve to be upward sloping.
A) Expectations theory
B) Liquidity preference theory
C) Market segmentation theory
D) Investor perception theory
Answer: <https://biology-forums.com/index.php?topic=575993>

Question 1147

In working capital management, risk is measured by the probability that a firm will be _____.
A) unable to pay annual dividends to stockholders
B) unable to pay its bills as they come due
C) unable to repay its long-term obligations
D) unable to earn profits from day-to-day operations
Answer: <https://biology-forums.com/index.php?topic=577319>

Question 1148

Delaying the payment of accounts payable in order to improve cash management is known as _____.
A) ACH transfers
B) stretching payables
C) credit scoring
D) lockbox system
Answer: <https://biology-forums.com/index.php?topic=577541>

Question 1149

Current liabilities can be viewed as _____.
A) debts that mature in a period of one year or less
B) liabilities which represent a firm's long-term financing
C) sources of cash inflows from the operating activities of a firm
D) funds used to finance the noncurrent assets' portion of a firm
Answer: <https://biology-forums.com/index.php?topic=577312>

Question 1150

Which of the following would be the least likely to utilize a cash budget?

- A) top management
- B) middle management
- C) public investors
- D) lenders

Answer: <https://biology-forums.com/index.php?topic=575701>

Question 1151

Present and prospective shareholders are mainly concerned with a firm's _____.

- A) risk and return
- B) profitability
- C) leverage
- D) liquidity

Answer: <https://biology-forums.com/index.php?topic=575526>

Question 1152

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

6) In a Chapter 7 liquidation bankruptcy proceeding, the order of priority of satisfying claims is secured creditors, unsecured creditors, and then equity holders.

Answer: <https://biology-forums.com/index.php?topic=578138>

Question 1153

A(n) _____ is secured by real estate.

- A) income bond
- B) debenture
- C) mortgage bond
- D) subordinated debenture

Answer: <https://biology-forums.com/index.php?topic=576076>

Question 1154

A firm has outstanding warrants that are exercisable at \$53 per share and entitle holders to purchase two shares of common stock. The common stock is currently selling for \$55 per share. The theoretical value of the warrant is _____.

- A) \$1
- B) \$2
- C) \$3
- D) \$4

Answer: <https://biology-forums.com/index.php?topic=577909>

Question 1155

Depreciation deductions, like any other business expenses, reduce the income that a firm reports on its income statement.

Answer: <https://biology-forums.com/index.php?topic=575625>

Question 1156

The residual theory of dividends implies that if a firm's available retained earnings are in excess of its financing needs, it should distribute the earnings by paying dividends to stockholders.

Answer: <https://biology-forums.com/index.php?topic=577202>

Question 1157

Which of the following is true of a securities exchange?

- A) It serves as an intermediary by channeling the savings of individuals, businesses, and governments into loans or investments.
- B) It borrows funds directly from the financial institutions.
- C) It is an association of banks who meet to buy and sell stocks and bonds.
- D) It provides a marketplace in which firms can raise funds through the sale of new securities and purchasers can resell securities.

Answer: <https://biology-forums.com/index.php?topic=575385>

Question 1158

A call feature is a feature included in all corporate bonds and allows the issuer to repurchase bonds at the market price prior to maturity.

Answer: <https://biology-forums.com/index.php?topic=576034>

Question 1159

A firm needs \$1.5 million of new long-term financing. The firm is considering the sale of common stock or a convertible bond. The current market price of the common stock is \$16 per share. To sell this new issue, the stock would have to be underpriced by \$1 and sold for \$15 per share. The firm currently has 600,000 shares of common stock outstanding. The alternative is to issue 30-year, 8 percent, and \$1,000 par-value convertible bonds. The conversion price would be set at \$20 per share, and the bond could be sold at par. The earnings for the firm are expected to be \$700,000 in the coming year. Which plan results in less dilution of the earnings per share?

- A) The common stock with an EPS of \$1.17.
- B) The convertible bond with an EPS of \$1.17.
- C) The common stock with an EPS of \$1.00.
- D) The convertible bond with an EPS of \$1.00.

Answer: <https://biology-forums.com/index.php?topic=577880>

Question 1160

Greater risk aversion results in lower required returns for each level of risk, whereas a reduction in risk aversion would cause the required return for each level of risk to increase as depicted by SML.

Answer: <https://biology-forums.com/index.php?topic=576511>

Question 1161

Book value per share is the ratio of _____.

- A) common stock equity to number of outstanding common shares
- B) retained earnings to number of outstanding common shares
- C) fixed assets to number of outstanding common shares
- D) total liabilities to number of outstanding common shares

Answer: <https://biology-forums.com/index.php?topic=575605>

Question 1162

Corporation X needs \$1,000,000 and can raise this through debt at an annual rate of 10 percent, or preferred stock at an annual cost of 7 percent. If the corporation has a 40 percent tax rate, the after-tax cost of each is _____.

- A) debt: \$100,000; preferred stock: \$70,000
- B) debt: \$60,000; preferred stock: \$42,000
- C) debt: \$60,000; preferred stock: \$70,000
- D) debt: \$100,000; preferred stock: \$42,000

Answer: <https://biology-forums.com/index.php?topic=575431>

Question 1163

_____ are secured by stock and/or bonds that are owned by the issuer.

- A) Mortgage bonds
- B) Equipment trust certificates
- C) Collateral trust bonds
- D) Subordinated debentures

Answer: <https://biology-forums.com/index.php?topic=576084>

Question 1164

A firm has the following accounts and financial data for 2014:

The firm's earnings per share for 2014 is _____.

- A) \$0.5335
- B) \$0.5125
- C) \$0.3204
- D) \$0.3024

Answer: <https://biology-forums.com/index.php?topic=575490>

Question 1165

The excess cash balance is the amount available for investment by a firm if the desired minimum cash balance is less than the period's ending cash.

Answer: <https://biology-forums.com/index.php?topic=575721>

Question 1166

Which of the following is true of risk premium?

- A) T-bills have a higher risk premium than that of Treasury bonds.
- B) The government bonds have a higher risk premium than that of corporate bonds.
- C) The speculative corporate issues have a lower risk premium than that of the higher rated corporate issues.
- D) The lower-rated corporate issues have a higher risk premium than that of the higher rated corporate issues.

Answer: <https://biology-forums.com/index.php?topic=575995>

Question 1167

The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk.

Answer: <https://biology-forums.com/index.php?topic=575250>

Question 1168

Markepta, Inc. is considering the acquisition of Management Theories, Inc. at a cash price of \$1.5 million. Crimson Services, Inc. has short-term liabilities of \$500,000. As a result of acquiring Crimson Services, Inc., Markepta, Inc. would acquire the copyrights of a national best-seller which would provide an estimated cash flow of \$300,000 for the next five years. The firm has a cost of capital of 20 percent. The approximate net present value of this acquisition is _____.

- A) \$500,000
- B) \$480,800
- C) -\$102,700.55
- D) -\$1,102,816.36

Answer: <https://biology-forums.com/index.php?topic=578062>

Question 1169

The _____ is the time period that elapses from the point when a firm sells a finished good on account to the point when the receivable is collected.

- A) cash conversion cycle
- B) average payment period
- C) average age of inventory
- D) average collection period

Answer: <https://biology-forums.com/index.php?topic=577356>

Question 1170

Lines of credit are non-guaranteed loans that specify the maximum amount that a firm can owe the bank at any point in time.

Answer: <https://biology-forums.com/index.php?topic=577649>

Question 1171

A financial lease is often referred as a capital lease.

Answer: <https://biology-forums.com/index.php?topic=577770>

Question 1172

Which of the following increases the chances of business failures?

- A) increasing provision for doubtful accounts
- B) current ratio of 2:1
- C) liabilities that exceed market value of assets
- D) book value of assets that exceed liabilities

Answer: <https://biology-forums.com/index.php?topic=578120>

Question 1173

A shift toward more fixed costs increases business risk, which in turn causes earnings before interest and taxes to increase by less for a given increase in sales.

Answer: <https://biology-forums.com/index.php?topic=577083>

Question 1174

Tina's Medical Equipment Company paid \$2.25 common stock dividend last year. The company's policy is to allow its dividend to grow at 5 percent per year indefinitely. What is the value of the stock if the required rate of return is 8 percent?

Answer: <https://biology-forums.com/index.php?topic=576316>

Question 1175

Under a conservative funding strategy, the firm funds both its seasonal and its permanent requirements with long-term debt.

Answer: <https://biology-forums.com/index.php?topic=577342>

Question 1176

A firm currently has outstanding a 9 percent, \$1,000 convertible bond. The bond is convertible into 100 shares of common stock at a conversion price of \$10 per share and callable at \$1,090. The current market price of the firm's stock is \$12 per share. The bond holder will _____.

- A) allow the call to be exercised realizing \$90 over par value
- B) convert the bond into stock realizing \$200 over par value
- C) convert the bond into stock realizing only par value
- D) wait until the stock price goes up further

Answer: <https://biology-forums.com/index.php?topic=577874>

Question 1177

Mr. R. owns 20,000 shares of ABC Corporation stock. The company is planning to issue a stock dividend. Before the dividend Mr. R. owned 10 percent of the outstanding stock, which had a market value of \$200,000, or \$10 per share. Upon receiving the 10 percent stock dividend the value of his shares is _____.

- A) \$220,000
- B) \$210,000
- C) \$200,000
- D) \$180,000

Answer: <https://biology-forums.com/index.php?topic=577276>

Question 1178

The purpose of the debt covenant that requires maintaining a minimum level of net working capital is to _____.

- A) protect the lender by controlling the risk and marketability of the borrower's security investment alternatives
- B) limit the amount of fixed-payment obligations
- C) ensure a cash shortage does not cause an inability to meet current obligations
- D) limit the annual cash dividends paid by the firm

Answer: <https://biology-forums.com/index.php?topic=576019>

Question 1179

The breakeven point in dollars can be computed by dividing the contribution margin into the variable operating costs.

Answer: <https://biology-forums.com/index.php?topic=576976>

Question 1180

Identify each expense or revenue as a cash flow from operating activities (O), a cash flow from investment activities (I), or a cash flow from financing activities (F).

Administrative expenses

Rent payment

Interest on a note payable

Sale of equipment

Dividend payment

Stock repurchase

Sale of finished goods

Labor expense

Sale of a bond issue

Repayment of a long-term debt

Selling expenses

Depreciation expense

Sale of common stock

Purchase of fixed assets

Answer: <https://biology-forums.com/index.php?topic=575689>

Question 1181

When implementing the cash management strategies, a firm should avoid damaging a firm's credit rating by overstretching accounts payable.

Answer: <https://biology-forums.com/index.php?topic=577343>

Question 1182

A firm has an outstanding bond with a \$1,000 par value that is convertible at \$40 per share of common stock. The bond's conversion ratio is _____.

- A) 20
- B) 25

- C) 40
- D) 50

Answer: <https://biology-forums.com/index.php?topic=577871>

Question 1183

Mutually exclusive projects are those whose cash flows compete with one another; the acceptance of one eliminates the others from further consideration.

Answer: <https://biology-forums.com/index.php?topic=576677>

Question 1184

A(n) _____ yield curve reflects lower expected future rates of interest.

- A) upward-sloping
- B) flat
- C) downward-sloping
- D) linear

Answer: <https://biology-forums.com/index.php?topic=575975>

Question 1185

After satisfying obligations to creditors, the government, and preferred stockholders, any remaining earnings will most likely be allocated to _____.

- A) common shareholders as cash dividends
- B) common shareholders as stock dividends
- C) other firms requiring capital
- D) pay future preferred dividends

Answer: <https://biology-forums.com/index.php?topic=577115>

Question 1186

Given a financial manager's preference for faster receipt of cash flows, _____.

- A) a longer depreciable life is preferred to a shorter one
- B) a shorter depreciable life is preferred to a longer one
- C) the manager is not concerned with depreciable life, because depreciation is a noncash expense
- D) the manager is not concerned with depreciable life, because once purchased, depreciation is considered a sunk cost

Answer: <https://biology-forums.com/index.php?topic=575639>

Question 1187

Factoring accounts receivable is relatively an expensive source of secured short-term funds that allows firms to turn accounts receivable immediately into cash.

Answer: <https://biology-forums.com/index.php?topic=577730>

Question 1188

Julian is considering purchasing the stock of Pepsi Cola because he really loves the taste of Pepsi. What should Julian be willing to pay for Pepsi today if it is expected to pay a \$2 dividend in one year and he expects dividends to grow at 5 percent indefinitely? Julian requires a 12 percent return to make this investment.

- A) \$28.57
- B) \$29.33
- C) \$31.43
- D) \$43.14

Answer: <https://biology-forums.com/index.php?topic=576302>

Question 1189

Diversified investors should be concerned solely with nondiversifiable risk because it can create a portfolio of assets that will eliminate all, or virtually all, diversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=576456>

Question 1190

To carry out systematic retirement of bonds, a corporation makes semiannual or annual payments that are used to retire bonds by purchasing them in the marketplace.

Answer: <https://biology-forums.com/index.php?topic=576006>

Question 1191

NICO Corporation had net fixed assets of \$2,000,000 at the end of 2015 and \$1,800,000 at the end of 2014. In addition, the firm had a depreciation expense of \$200,000 during 2015 and \$180,000 during 2014. Using this information, NICO's net fixed asset investment for 2015 was _____.

- A) \$20,000
- B) \$0
- C) \$380,000
- D) \$400,000

Answer: <https://biology-forums.com/index.php?topic=575685>

Question 1192

Operating leverage may be defined as the potential use of fixed operating costs to magnify the effects of changes in sales on a firm's earnings before interest and taxes (EBIT).

Answer: <https://biology-forums.com/index.php?topic=577018>

Question 1193

The philosophy of the _____ is that a firm would have only work-in-process inventory.

- A) basic economic order quantity system
- B) materials requirement planning system
- C) just-in-time system
- D) LIFO method

Answer: <https://biology-forums.com/index.php?topic=577425>

Question 1194

Which of the following legal forms of organization has the ease of dissolution?

- A) sole proprietorships
- B) partnerships
- C) limited partnerships
- D) corporations

Answer: <https://biology-forums.com/index.php?topic=575234>

Question 1195

Average payment period can be calculated as accounts payable divided by average sales per day.

Answer: <https://biology-forums.com/index.php?topic=575553>

Question 1196

Before paying dividends, a subsidiary must pay federal and state taxes on its earnings.

Answer: <https://biology-forums.com/index.php?topic=578093>

Question 1197

_____ leverage is concerned with the relationship between sales revenues and earnings before interest and taxes.

- A) Investing
- B) Operating
- C) Variable
- D) Total

Answer: <https://biology-forums.com/index.php?topic=577034>

Question 1198

A banker's acceptance is a low-risk security because at least two, and sometimes three, parties may be liable for its payment at maturity.

Answer: <https://biology-forums.com/index.php?topic=577537>

Question 1199

In capital budgeting, risk is the degree of variability of cash flows.

Answer: <https://biology-forums.com/index.php?topic=576882>

Question 1200

The Securities Act of 1933 focuses on regulating the sale of securities in the primary market, whereas the 1934 Act deals with the regulations governing the transactions in the secondary market.

Answer: <https://biology-forums.com/index.php?topic=575410>

Question 1201

Everything else being equal, the higher the interest rate, the higher the future value.

Answer: <https://biology-forums.com/index.php?topic=575775>

Question 1202

At a firm's quarterly dividend meeting held on December 5, the directors declared a \$1.50 per share cash dividend to be paid to the holders of record on Monday, January 1. Before the dividend was declared, the firm's accumulated retained earnings balance and cash balance were \$1,280,000 and \$30,000 respectively. The firm has 10,000 shares of common stock outstanding. On January 2, the cash, dividends payable, and retained earnings accounts had balances of _____.

- A) \$15,000, \$0, and \$1,265,000, respectively
- B) \$30,000, \$15,000, and \$1,280,000, respectively
- C) \$30,000, \$0, and \$1,265,000, respectively
- D) \$15,000, \$0, and \$1,280,000, respectively

Answer: <https://biology-forums.com/index.php?topic=577262>

Question 1203

Which of the following is true?

- A) The process of pooling mortgages or other types of loans and then selling claims or securities against that pool in a secondary market is called capitalization.
- B) Corporations pay taxes on all dividends received from other corporations, no matter their share of ownership.
- C) Corporations may pay taxes depending on their percentage of ownership.
- D) Capital gains are treated separately from ordinary corporate income for tax purposes.

Answer: <https://biology-forums.com/index.php?topic=575434>

Question 1204

A positive cash conversion cycle means that a firm must obtain financing to support the cash conversion cycle.

Answer: <https://biology-forums.com/index.php?topic=577330>

Question 1205

A firm is evaluating three capital projects. The net present values for the projects are as follows:

The firm should _____.

- A) accept Projects 1 and 2, and reject Project 3
- B) accept Projects 1 and 3, and reject Project 2
- C) accept Project 3, and reject Projects 1 and 2
- D) accept all projects

Answer: <https://biology-forums.com/index.php?topic=576757>

Question 1206

Which of the following is true of a primary market?

- A) It is an organized market in which all financial derivatives are traded.
- B) It is regulated by The Sarbanes-Oxley Act.
- C) It is a market where smaller, unlisted securities are traded.
- D) It is the only market in which the issuer is directly involved in the transaction.

Answer: <https://biology-forums.com/index.php?topic=575379>

Question 1207

A financial manager must choose between four alternative Assets: 1, 2, 3, and 4. Each asset costs \$35,000 and is expected to provide earnings over a three-year period as described below.

Based on the wealth maximization goal, the financial manager would choose _____.

- A) Asset 1
- B) Asset 2
- C) Asset 3
- D) Asset 4

Answer: <https://biology-forums.com/index.php?topic=575273>

Question 1208

Unlike the net present value criteria, the internal rate of return approach assumes a reinvestment rate equal to _____.

- A) the relevant cost of capital

- B) the project's internal rate of return
- C) the project's opportunity cost
- D) the market's interest rate

Answer: <https://biology-forums.com/index.php?topic=576805>

Question 1209

A firm in a merger transaction that is being pursued as a takeover potential is called the _____.

- A) acquiring company
- B) target company
- C) holding company
- D) consolidated company

Answer: <https://biology-forums.com/index.php?topic=577984>

Question 1210

In credit terms, EOM (End-of-Month) indicates that the accounts payable must be paid by the end of the month in which the merchandise has been purchased.

Answer: <https://biology-forums.com/index.php?topic=577587>

Question 1211

A firm with limited dollars available for capital expenditures is subject to _____.

- A) capital dependency
- B) capital gains
- C) working capital constraints
- D) capital rationing

Answer: <https://biology-forums.com/index.php?topic=576698>

Question 1212

ABC Corp. extends credit terms of 45 days to its customers. Its credit collection would likely be considered poor if its average collection period was _____.

- A) 30 days
- B) 36 days
- C) 44 days
- D) 57 days

Answer: <https://biology-forums.com/index.php?topic=575571>

Question 1213

Spontaneous liabilities such as accounts payable and notes payable represent a source of financing that arise from the normal course of business.

Answer: <https://biology-forums.com/index.php?topic=577594>

Question 1214

Without adjustment, inflation may tend to cause _____ firms to appear more efficient and profitable than _____ firms.

- A) larger; smaller
- B) older; newer
- C) smaller; larger
- D) newer; older

Answer: <https://biology-forums.com/index.php?topic=575539>

Question 1215

In applying risk-adjusted discount rates to project selection, projects falling above the SML would have a negative NPV and those falling below the SML would have a positive NPV.

Answer: <https://biology-forums.com/index.php?topic=576924>

Question 1216

A(n) _____ distribution shows all possible outcomes and associated probabilities for a given event.

- A) discrete
- B) lognormal
- C) exponential
- D) probability

Answer: <https://biology-forums.com/index.php?topic=576403>

Question 1217

Leverage results from the use of equity to magnify returns to a firm's owners.

Answer: <https://biology-forums.com/index.php?topic=576956>

Question 1218

A firm has experienced a constant annual rate of dividend growth of 9 percent on its common stock and expects the dividend per share in the coming year to be \$2.70. The firm can earn 12 percent on similar risk involvements. The value of the firm's common stock is _____.

- A) \$22.50/share
- B) \$9/share
- C) \$90/share
- D) \$30/share

Answer: <https://biology-forums.com/index.php?topic=576299>

Question 1219

A public offering is the sale of a new security issue—typically debt or preferred stock—directly to an investor or group of investors.

Answer: <https://biology-forums.com/index.php?topic=575359>

Question 1220

If expected return is less than required return on an asset, rational investors will _____.

- A) buy the asset, which will drive the price up and cause expected return to reach the level of the required return
- B) sell the asset, which will drive the price down and cause the expected return to reach the level of the required return
- C) sell the asset, which will drive the price up and cause the expected return to reach the level of the required return
- D) buy the asset, since price is expected to increase

Answer: <https://biology-forums.com/index.php?topic=576289>

Question 1221

The over-the-counter (OTC) market is a market for trading smaller and unlisted securities.

Answer: <https://biology-forums.com/index.php?topic=575367>

Question 1222

Which of the following factors can influence the operations of an MNC?

- A) foreign ownership of portions of equity
- B) debt and equity structures based on home country's capital market
- C) dividend payout policy
- D) consolidation of financial statements based on only one currency

Answer: <https://biology-forums.com/index.php?topic=578167>

Question 1223

Capital expenditure proposals are reviewed to assess their appropriateness in light of a firm's overall objectives and plans, and to evaluate their economic validity.

Answer: <https://biology-forums.com/index.php?topic=576658>

Question 1224

Asset P has a beta of 0.9. The risk-free rate of return is 8 percent, while the return on the market portfolio of assets is 14 percent. The asset's required rate of return is _____.

- A) 13.4 percent
- B) 22.0 percent
- C) 15.4 percent
- D) 6.0 percent

Answer: <https://biology-forums.com/index.php?topic=576522>

Question 1225

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

8) An involuntary petition for reorganization may be filed against a firm if _____.

- A) the firm has past-due debts of \$5,000 or more

- B) the firm's solvency ratio is greater than 20%
- C) the firm's current ratio is 2:1
- D) the book value of the firm's assets is less than the stated liabilities

Answer: <https://biology-forums.com/index.php?topic=578140>

Question 1226

The difference between the number of days resources are tied up in the operating cycle and the number of days a firm can use spontaneous financing before payment is made is the _____.

- A) cash conversion cycle
- B) average payment period
- C) operating cycle
- D) average age of inventory

Answer: <https://biology-forums.com/index.php?topic=577379>

Question 1227

The _____ is the time period that elapses from the point when a firm uses the raw materials in manufacturing a finished good to the point when the finished good is sold.

- A) cash turnover
- B) cash conversion cycle
- C) average age of inventory
- D) average collection period

Answer: <https://biology-forums.com/index.php?topic=577355>

Question 1228

When the ratio of exchange in a merger is equal to one and both the acquiring and the target companies have the same premerger earnings per share, both the acquiring and the target companies have the same _____.

- A) debt ratio
- B) book value per share
- C) return on equity
- D) P/E ratio

Answer: <https://biology-forums.com/index.php?topic=578072>

Question 1229

The effective interest rate generally is _____.

- A) higher on a loan if interest is paid at maturity
- B) lower if the loan is a discount loan
- C) higher if the loan is a discount loan
- D) not affected by whether the loan is a discount loan or a loan with interest paid at maturity

Answer: <https://biology-forums.com/index.php?topic=577671>

Question 1230

What effective annual rate of return (EAR) would Rayne need to earn if she deposits \$1,000 per month into an account beginning one month from today in order to have a total of \$1,000,000 in 30 years?

- A) 5.98%
- B) 6.55%
- C) 4.87%
- D) 6.14%

Answer: <https://biology-forums.com/index.php?topic=575914>

Question 1231

The weights used in weighted average cost of capital must be _____.

- A) greater than 50%
- B) nonnegative
- C) less than zero
- D) zero

Answer: <https://biology-forums.com/index.php?topic=576649>

Question 1232

A hybrid security is a form of debt or equity financing that possesses characteristics of both debt and equity.

Answer: <https://biology-forums.com/index.php?topic=577760>

Question 1233

The priority of claims established by Chapter 7 of the Bankruptcy Reform Act of 1978 gives priority to _____.

- A) unpaid employee benefit plan contributions over unsecured customer deposits
- B) common stockholders over taxes
- C) taxes over expenses of administering the bankruptcy
- D) preferred stockholders over claims of secured creditors

Answer: <https://biology-forums.com/index.php?topic=578143>

Question 1234

In general, _____.

- A) a longer depreciable life is preferred, because it will result in a faster receipt of cash flows
- B) a shorter depreciable life is preferred, because it will result in a faster receipt of cash flows
- C) a shorter depreciable life is preferred, because management can then purchase new assets, as the old assets are written off
- D) a longer depreciable life is preferred, because management can postpone purchasing new assets, since the old assets still have a useful life

Answer: <https://biology-forums.com/index.php?topic=575640>

Question 1235

The annualized net present value approach used to evaluate projects with unequal lives converts the net present value of unequal-lived, mutually exclusive projects into an equivalent annual amount.

Answer: <https://biology-forums.com/index.php?topic=576936>

Question 1236

Which of the following explains the general shape of the yield curve of a bond?

- A) Expectations theory
- B) Perfect market theory
- C) Capital asset pricing theory
- D) Securities market theory

Answer: <https://biology-forums.com/index.php?topic=575991>

Question 1237

Credit terms 2/10, net 30 means _____.

- A) a discount of 10% is granted if payments are done within 30 days
- B) a discount of 10% is granted if payments are done within 2 days, net 30 days available
- C) a discount of 2% is granted if payments are done within 10 days, net 30 days available
- D) a discount of 2% is granted if payments are done within 30 days, beyond which a 10% interest is charged

Answer: <https://biology-forums.com/index.php?topic=577612>

Question 1238

A local brokerage firm is offering a zero-coupon certificate of deposit for \$10,000. At maturity, three years from now, the investor will receive \$14,000. What is the rate of return on this investment?

- A) 14 percent
- B) 13 percent
- C) 12 percent
- D) 11 percent

Answer: <https://biology-forums.com/index.php?topic=575892>

Question 1239

Repurchase of stock _____ the earnings per share and _____ the market price of stock.

- A) increases; increases
- B) decreases; decreases
- C) increases; decreases
- D) decreases; increases

Answer: <https://biology-forums.com/index.php?topic=577196>

Question 1240

_____ are financial instruments that allow stockholders to purchase additional shares at a price below the market price, in direct proportion to their number of owned shares.

- A) Rights offering

- B) Treasury stocks
- C) Preemptive rights
- D) Proxy statements

Answer: <https://biology-forums.com/index.php?topic=576259>

Question 1241

Asset Y has a beta of 1.2. The risk-free rate of return is 6 percent, while the return on the market portfolio of assets is 12 percent. The asset's market risk premium is _____.

- A) 7.2 percent
- B) 6.0 percent
- C) 13.2 percent
- D) 10 percent

Answer: <https://biology-forums.com/index.php?topic=576520>

Question 1242

Which of the following steps in the capital budgeting process follows the decision making step?

- A) proposal generation
- B) review and analysis
- C) transformation
- D) implementation

Answer: <https://biology-forums.com/index.php?topic=576694>

Question 1243

The approximate after-tax cost of debt for a 20-year, 7 percent, \$1,000 par value bond selling at \$960 (assume a marginal tax rate of 40 percent) is _____.

- A) 4.43 percent
- B) 5.15 percent
- C) 7 percent
- D) 7.35 percent

Answer: <https://biology-forums.com/index.php?topic=576578>

Question 1244

Xiao Li wishes to accumulate \$50,000 by the end of 10 years by making equal annual end-of-year deposits over the next 10 years. If Xiao Li can earn 5 percent on her investments, how much must she deposit at the end of each year?

- A) \$3,975
- B) \$6,475
- C) \$5,000
- D) \$4,513

Answer: <https://biology-forums.com/index.php?topic=575898>

Question 1245

In October, a firm had an ending cash balance of \$35,000. In November, the firm had a net cash flow of \$40,000. The minimum cash balance required by the firm is \$25,000. At the end of November, the firm had _____.

- A) an excess cash balance of \$50,000
- B) an excess cash balance of \$75,000
- C) required total financing of \$15,000
- D) required total financing of \$5,000

Answer: <https://biology-forums.com/index.php?topic=575742>

Question 1246

Earnings before interest and taxes (EBIT) is a descriptive label for _____.

- A) operating profits
- B) net profits before taxes
- C) earnings per share
- D) gross profits

Answer: <https://biology-forums.com/index.php?topic=576987>

Question 1247

The Sarbanes-Oxley Act of 2002 was passed to eliminate many of the disclosure and conflict-of-interest problems of corporations.

Answer: <https://biology-forums.com/index.php?topic=575442>

Question 1248

The reorder point is an inventory management system that compares production needs to available inventory balances and determines when orders should be placed for various items on a firm's bill of materials.

Answer: <https://biology-forums.com/index.php?topic=577409>

Question 1249

A conglomerate merger is a merger combining firms in unrelated businesses.

Answer: <https://biology-forums.com/index.php?topic=577970>

Question 1250

Tina's Apple Company would like to manufacture and market a new packaging. Tina's has sold an issue of commercial paper for \$1,500,000 and maturity of 90 days to finance the new project. Compute the annual interest rate on the issue of commercial paper if the value of the commercial paper at maturity is \$1,650,000 (assuming 360 days in a year).

Answer: <https://biology-forums.com/index.php?topic=577709>

Question 1251

An investor is considering buying 500 shares of ABC Company at \$32 per share. Analysts agree that the firm's stock price may increase to \$45 per share in the next 4 months. As an alternative, the investor could purchase a 120-day call option at a striking price of \$30 for \$5,000. At what stock price would the investor break even?

- A) \$35
- B) \$40
- C) \$42
- D) \$45

Answer: <https://biology-forums.com/index.php?topic=577931>

Question 1252

Which of the following is true of inventory level?

- A) A purchasing manager would purchase higher inventories when prices are low and lower inventories when prices are high irrespective of inventory requirement.
- B) A marketing manager would like to have smaller inventories of finished products to ensure production of goods as per customer specification.
- C) A financial manager would keep inventory levels low to ensure that the firm's money is not unwisely invested in excess resources.
- D) A manufacturing manager would keep raw materials inventories low to ensure use of latest materials in production process.

Answer: <https://biology-forums.com/index.php?topic=577414>

Question 1253

The selling of some of a firm's assets for various strategic motives is called divestiture.

Answer: <https://biology-forums.com/index.php?topic=578027>

Question 1254

As firms are unable to match cash inflows to outflows with certainty, most of them need current liabilities.

Answer: <https://biology-forums.com/index.php?topic=577297>

Question 1255

_____ is an arrangement initiated by a debtor firm to negotiate with the creditors about a plan for sustaining or liquidating the firm.

- A) Golden parachute
- B) Greenmail
- C) A filing of Chapter Seven of the Bankruptcy Reform Act of 1978
- D) A voluntary settlement

Answer: <https://biology-forums.com/index.php?topic=578122>

Question 1256

The future value of \$200 received today and deposited at 8 percent for three years is _____.

- A) \$248
- B) \$252
- C) \$158
- D) \$200

Answer: <https://biology-forums.com/index.php?topic=575781>

Question 1257

Assuming the following returns and corresponding probabilities for asset A, compute its standard deviation and coefficient of variation.

Answer: <https://biology-forums.com/index.php?topic=576412>

Question 1258

A corporation that has voting control of one or more other corporations is called a _____.

- A) holding company
- B) congeneric formation
- C) subsidiary
- D) target firm

Answer: <https://biology-forums.com/index.php?topic=577979>

Question 1259

Lisa's Riding Equipment Company has entered into two lease arrangements. One lease is an operating lease on an office copier requiring annual lease payments of \$2,000 for the next three years. The other lease is a 15-year financial lease on a building requiring annual lease payments of \$150,000. If the firm's discount rate is 10 percent, how should each lease be presented on the firm's balance sheet?

Answer: <https://biology-forums.com/index.php?topic=577811>

Question 1260

Which of the following is a source of cash flows?

- A) increase in marketable securities
- B) increase in accounts payable
- C) decrease in notes payable
- D) repurchase of stock

Answer: <https://biology-forums.com/index.php?topic=575662>

Question 1261

Assets leased under _____ leases generally have a usable life longer than the term of the lease.

- A) financial
- B) operating
- C) capital
- D) direct

Answer: <https://biology-forums.com/index.php?topic=577793>

Question 1262

The risk to a U.S. importer with foreign-currency-denominated accounts payable is that the dollar will depreciate.

Answer: <https://biology-forums.com/index.php?topic=577694>

Question 1263

A risk of the _____ financing strategy is unpredictable interest expense.

- A) aggressive
- B) conservative
- C) permanent
- D) seasonal

Answer: <https://biology-forums.com/index.php?topic=577391>

Question 1264

Once sales are forecasted, _____ must be generated to estimate required raw materials.

- A) a production plan
- B) a cash budget
- C) an operating budget
- D) a pro forma statement

Answer: <https://biology-forums.com/index.php?topic=575708>

Question 1265

A stock split is usually taxable to a firm as it restructures the capital.

Answer: <https://biology-forums.com/index.php?topic=577283>

Question 1266

If a firm anticipates stretching accounts payable, its cost of giving up a cash discount is reduced.

Answer: <https://biology-forums.com/index.php?topic=577592>

Question 1267

In a _____ market, the buyer and seller are brought together to trade securities in an organization called _____.

- A) dealer; securities market
- B) broker; over-the-counter market
- C) broker; securities market
- D) dealer; over-the-counter market

Answer: <https://biology-forums.com/index.php?topic=575393>

Question 1268

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ less financial leverage than an otherwise equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577095>

Question 1269

No-par preferred stock has no stated face value, but its annual dividend is stated as a percentage of the market value.

Answer: <https://biology-forums.com/index.php?topic=576198>

Question 1270

Everything else being equal, the higher the discount rate, the higher the present value.

Answer: <https://biology-forums.com/index.php?topic=575777>

Question 1271

The primary purpose in preparing pro forma financial statements is _____.

- A) for cash planning
- B) to ensure the ability to pay dividends
- C) to reduce risk
- D) for profit planning

Answer: <https://biology-forums.com/index.php?topic=575702>

Question 1272

If a United States Savings bond can be purchased for \$14.60 and has a maturity value at the end of 25 years of \$100, what is the annual rate of return on the bond?

- A) 6 percent
- B) 7 percent
- C) 8 percent
- D) 9 percent

Answer: <https://biology-forums.com/index.php?topic=575880>

Question 1273

The future value of an ordinary annuity of \$1,000 each year for 10 years, deposited at 3 percent, is _____.

- A) \$11,808.
- B) \$11,464.
- C) \$ 8,530.
- D) \$10,000.

Answer: <https://biology-forums.com/index.php?topic=575808>

Question 1274

During 2015, NICO Corporation had EBIT of \$100,000, a change in net fixed assets of \$400,000, an increase in net current assets of \$100,000, an increase in spontaneous current liabilities of \$400,000, a depreciation expense of \$50,000, and a tax rate of 30%. Based on this information, NICO's free cash flow is _____.

- A) -\$630,000
- B) -\$50,000
- C) \$650,000
- D) -\$30,000

Answer: <https://biology-forums.com/index.php?topic=575687>

Question 1275

The _____ is a technique that divides inventory into three groups, according to dollar investment.

- A) JIT system
- B) ABC system
- C) EOQ model
- D) LIFO model

Answer: <https://biology-forums.com/index.php?topic=577420>

Question 1276

Nominal rate of interest is equal to _____.

- A) the real rate plus an inflationary expectation
- B) the real rate plus a risk premium
- C) the risk-free rate plus an inflationary expectation
- D) the risk-free rate plus a risk premium

Answer: <https://biology-forums.com/index.php?topic=575966>

Question 1277

The amount of money that would have to be invested today at a given interest rate over a specified period in order to equal a future amount is called _____.

- A) future value
- B) present value
- C) future value of an annuity
- D) compounded value

Answer: <https://biology-forums.com/index.php?topic=575783>

Question 1278

ADRs are _____.

- A) securities, backed by American depository shares (ADSs), that permit U.S. investors to hold shares of non-U.S. companies and trade them in U.S. markets
- B) securities, backed by Securities Exchange Commission (SEC), that permit all investors to hold shares of U.S. companies and trade them in U.S. markets
- C) securities, backed by American depository shares (ADSs), that permit non-U.S. investors to hold shares of U.S. companies and trade them in U.S. markets
- D) securities, backed by Securities Exchange Commission (SEC), that permit U.S. investors to hold shares of non-U.S. companies and trade them in international markets.

Answer: <https://biology-forums.com/index.php?topic=576211>

Question 1279

The spot exchange rate is the rate of exchange between two currencies at some specified future date.

Answer: <https://biology-forums.com/index.php?topic=578187>

Question 1280

A firm's net cash flow is the mathematical difference between the firm's beginning cash and its cash disbursements in each period.

Answer: <https://biology-forums.com/index.php?topic=575720>

Question 1281

Firms occasionally repurchase stock in order to alter capital structure or to increase the returns to the owners.

Answer: <https://biology-forums.com/index.php?topic=576235>

Question 1282

If a firm increases its current assets relative to total assets, _____.

- A) it increases return and reduces risk
- B) it increases return and increases risk
- C) it reduces return and reduces risk
- D) it reduces return and increases risk

Answer: <https://biology-forums.com/index.php?topic=577320>

Question 1283

Ted has 10 shares of Grand Company. Based on the company's dividend policy, Ted will receive a total of \$450 a year in perpetuity. What is the value of each share if the rate of interest is 8 percent?

Answer: <https://biology-forums.com/index.php?topic=576314>

Question 1284

What is the NPV for a project whose cost of capital is 15 percent and initial after-tax cost is \$5,000,000 and is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$1,700,000 in year 3, and \$1,300,000 in year 4?

- A) \$1,700,000
- B) \$371,764
- C) -\$137,053
- D) -\$4,862,947

Answer: <https://biology-forums.com/index.php?topic=576754>

Question 1285

The constant-growth model uses the market price as a reflection of the expected risk-return preference of investors in the market place.

Answer: <https://biology-forums.com/index.php?topic=576594>

Question 1286

According to the bird-in-the-hand argument, current dividend payments reduce investor uncertainty and result in a higher value for a firm's stock.

Answer: <https://biology-forums.com/index.php?topic=577208>

Question 1287

The _____ is the discount rate that equates the present value of the cash inflows with the initial investment.

- A) payback period
- B) net present value
- C) cost of capital
- D) internal rate of return

Answer: <https://biology-forums.com/index.php?topic=576798>

Question 1288

As credit standards are tightened, sales are expected to _____ and the investment in accounts receivable is expected to _____.

- A) increase; increase
- B) increase; decrease
- C) decrease; decrease
- D) decrease; increase

Answer: <https://biology-forums.com/index.php?topic=577477>

Question 1289

A(n) _____ effectively raises the interest cost to the borrower on a line of credit.

- A) operating-change restriction
- B) annual cleanup
- C) compensating balance
- D) commitment fee

Answer: <https://biology-forums.com/index.php?topic=577673>

Question 1290

Jeanne has just graduated from high school and has received an award for \$5,000. She would like to deposit the money in an interest earning account until she graduates from college (i.e., four years from now). In her search for the highest interest earning account, she has narrowed the list down to the following two accounts: 1) bank A pays 9 percent interest compounded annually, and 2) bank B pays 8 percent interest compounded semiannually. Which is the better offer, and how much will Jeanne have upon graduation from college?

Answer: <https://biology-forums.com/index.php?topic=575866>

Question 1291

The sale of a unit of a firm to existing management is often achieved through _____.

- A) a limited partnership
- B) a leveraged buyout
- C) an employee stock option

D) a cash exchange

Answer: <https://biology-forums.com/index.php?topic=578034>

Question 1292

To a buyer, an asset's value represents the minimum price that he or she would pay to acquire it.

Answer: <https://biology-forums.com/index.php?topic=576279>

Question 1293

When the net proceeds from sale of a bond equal its par value, the before-tax cost would just equal the coupon interest rate.

Answer: <https://biology-forums.com/index.php?topic=576564>

Question 1294

In the EBIT-EPS approach to capital structure, a constant level of EBIT is assumed _____.

- A) to ease the calculations of owners' equity
- B) to isolate the impact on returns of the financing costs associated with alternative capital structures
- C) to emphasize the relationship between interest expenses and taxes
- D) to concentrate on the effect of revenue and expense on capital structure decisions

Answer: <https://biology-forums.com/index.php?topic=577153>

Question 1295

One disadvantage of leasing is that in many cases, the return to the lessor is quite high so the firm in need of an asset might be better off borrowing to purchase it.

Answer: <https://biology-forums.com/index.php?topic=577791>

Question 1296

The Financial Accounting Standards Board (FASB) is the federal regulatory body that governs the sale and listing of securities.

Answer: <https://biology-forums.com/index.php?topic=575438>

Question 1297

If a firm has a limited capital budget to fund its capital projects, it is said to be facing the problem of _____.

- A) constrained capital
- B) wealth optimization
- C) capital rationing
- D) profitability

Answer: <https://biology-forums.com/index.php?topic=576951>

Question 1298

A major assumption of breakeven analysis and one which causes severe limitations in its use is that _____.

- A) fixed costs really are fixed
- B) total revenue is nonlinear
- C) revenues and operating costs are linear
- D) all costs are really semi-variable

Answer: <https://biology-forums.com/index.php?topic=577002>

Question 1299

In economic conditions characterized by a scarcity of short-term funds, a firm would best choose the _____ financing strategy.

- A) aggressive
- B) conservative
- C) permanent
- D) seasonal

Answer: <https://biology-forums.com/index.php?topic=577390>

Question 1300

When warrants are exercised, _____.

- A) only the number of common shares outstanding increases
- B) debt is increased
- C) both debt and equity are reduced
- D) there is no effect on the firm's capital structure

Answer: <https://biology-forums.com/index.php?topic=577905>

Question 1301

Which of the following is true of arguments for dividend relevance?

- A) A firm's value is determined solely by the earning power and risk of its assets.
- B) Investors are generally risk averse and attach less risk to current dividends than future dividends or capital gains.
- C) The value of a firm is unaffected as it functions in a perfect market.
- D) A clientele effect exists which causes a firm's shareholders to receive the dividends that they expect.

Answer: <https://biology-forums.com/index.php?topic=577222>

Question 1302

Return on total assets (ROA) measures the overall effectiveness of management in generating profits with its available assets.

Answer: <https://biology-forums.com/index.php?topic=575592>

Question 1303

The market rewards firms that adopt a fixed or increasing level of dividends rather than a fixed dividend payout policy through higher share prices.

Answer: <https://biology-forums.com/index.php?topic=577235>

Question 1304

If a firm expects short-term cash surpluses, it can plan _____.

- A) long-term investments
- B) short-term borrowing
- C) short-term investments
- D) leverage decisions

Answer: <https://biology-forums.com/index.php?topic=575738>

Question 1305

You have been given a choice between two retirement policies as described below.

Policy A: You will receive equal annual payments of \$10,000 beginning 35 years from now for 10 years.

Policy B: You will receive one lump-sum of \$100,000 in 40 years from now.

Which policy would you choose? Assume rate of interest is 6 percent.

Answer: <https://biology-forums.com/index.php?topic=575831>

Question 1306

A(n) _____ is a noncancellable arrangement that requires the lessee to make payments for the use of an asset over a relatively long period of time.

- A) operating lease
- B) financial lease
- C) sale-leaseback arrangement
- D) direct lease

Answer: <https://biology-forums.com/index.php?topic=577799>

Question 1307

The common stock entry in balance sheet is the par value of common stock.

Answer: <https://biology-forums.com/index.php?topic=575450>

Question 1308

Tax loss carryforward benefits can be used in mergers.

Answer: <https://biology-forums.com/index.php?topic=577966>

Question 1309

_____ measures the percentage of each sales dollar remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted.

- A) Net profit margin
- B) Operating profit margin
- C) Gross profit margin
- D) Earnings available to common shareholders

Answer: <https://biology-forums.com/index.php?topic=575599>

Question 1310

Of the following components of a cash budget, generally the easiest to estimate would be the _____.

- A) cash sales
- B) cash receipts
- C) cash disbursements
- D) month-to-month short-term borrowing

Answer: <https://biology-forums.com/index.php?topic=575735>

Question 1311

_____ is the value of a firm's ownership in the event that all assets are sold for their exact accounting value and the proceeds remaining after paying all liabilities (including preferred stock) are divided among common stockholders.

- A) Liquidation value
- B) Book value
- C) The P/E multiple
- D) The present value of the common stock

Answer: <https://biology-forums.com/index.php?topic=576327>

Question 1312

The expectations theory suggests that the shape of the yield curve reflects investors expectations about future interest rates.

Answer: <https://biology-forums.com/index.php?topic=575956>

Question 1313

_____ consider proposed fixed-asset outlays, research and development activities, marketing and product development actions, capital structure, and major sources of financing.

- A) Short-term financial plans
- B) Long-term financial plans
- C) Pro forma statements
- D) Cash budgeting

Answer: <https://biology-forums.com/index.php?topic=575703>

Question 1314

Should Tangshan Mining company accept a new project if its maximum payback is 3.25 years and its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$700,000 in year 3, and \$1,800,000 in year 4?

- A) Yes, since the payback period of the project is less than the maximum acceptable payback period.
- B) No, since the payback period of the project is more than the maximum acceptable payback period.
- C) Yes, since the risk exposure of the project is less than the maximum acceptable risk exposure.
- D) No, since the risk exposure of the project is more than the maximum acceptable risk exposure.

Answer: <https://biology-forums.com/index.php?topic=576730>

Question 1315

Renewal options normally require the lessor to maintain the assets and to make insurance and tax payments.

Answer: <https://biology-forums.com/index.php?topic=577777>

Question 1316

The outright sale of accounts receivable at a discount in order to obtain funds is called pledging accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=577717>

Question 1317

A crisis in the financial sector often spills over into other industries because when financial institutions _____ borrowing, activity in most other industries _____.

- A) increase; slows down
- B) contract; slows down
- C) increase; increases
- D) contract; increases

Answer: <https://biology-forums.com/index.php?topic=575408>

Question 1318

2/15 net 45 translates as 2 percent of the balance is due in 15 days; the remaining balance is due in 45 days.

Answer: <https://biology-forums.com/index.php?topic=577486>

Question 1319

A major weakness of a partnership is _____.

- A) the difficulty in maintaining owners' control
- B) the difficulty in liquidating or transferring ownership
- C) the double taxation of income
- D) its high organizational costs

Answer: <https://biology-forums.com/index.php?topic=575237>

Question 1320

The cost of capital of each source of financing is the after-tax cost of obtaining the financing using the historically based cost reflected by the existing financing on the firm's books.

Answer: <https://biology-forums.com/index.php?topic=576541>

Question 1321

Stocks are less riskier than either bonds or bills.

Answer: <https://biology-forums.com/index.php?topic=576361>

Question 1322

The turnover of accounts receivable can be calculated by dividing 365 days by average collection period.

Answer: <https://biology-forums.com/index.php?topic=577456>

Question 1323

The annual percentage yield (APY) is the effective rate of interest that must be disclosed to customers by banks on their savings products as a result of "truth in savings laws."

Answer: <https://biology-forums.com/index.php?topic=575849>

Question 1324

The required return on an asset is an increasing function of its nondiversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=576461>

Question 1325

Inventory is more attractive than accounts receivable as a short-term collateral since it normally has a market value greater than its book value, which is used to establish its value as collateral.

Answer: <https://biology-forums.com/index.php?topic=577747>

Question 1326

The advantage of using the extra dividend policy is that _____.

- A) a firm can avoid giving false hopes to shareholders
- B) if a firm's earnings drop, so does the dividend payment
- C) the extra dividend may become a regular event
- D) cyclical shifts in earnings may be avoided

Answer: <https://biology-forums.com/index.php?topic=577264>

Question 1327

If the cash discount period is increased, a firm's investment in accounts receivable is expected to _____.

- A) increase because existing customers attracted by the new policy will buy more products
- B) decrease because of nondiscount takers paying earlier to avail the cash discount
- C) decrease because discount takers will pay more in order to get more discount
- D) decrease because new customers will doubt the quality of product due to increase in discount

Answer: <https://biology-forums.com/index.php?topic=577505>

Question 1328

When a firm's credit standards is relaxed _____.

- A) its sales is expected to decrease with corresponding increase in costs
- B) its costs is expected to decrease with corresponding decrease in sales
- C) its costs is expected to increase faster than sales if the standards are not relaxed

D) its profit contribution from sales will be greater than the cost contribution

Answer: <https://biology-forums.com/index.php?topic=577481>

Question 1329

If a manager prefers investments with greater risk even if they have lower expected returns, then he is following a _____ strategy.

- A) risk-seeking
- B) risk-indifferent
- C) risk-averse
- D) risk-neutral

Answer: <https://biology-forums.com/index.php?topic=576370>

Question 1330

Other things being equal, a decrease in total asset turnover will result in _____ in the return on total assets.

- A) an increase
- B) a decrease
- C) no change
- D) an undetermined change

Answer: <https://biology-forums.com/index.php?topic=575616>

Question 1331

When a firm stretches accounts payable without hurting its credit rating, the cost of giving up a cash discount is _____.

- A) reduced
- B) increased
- C) unaffected
- D) increased or decreased depending on the opening accounts payable balance

Answer: <https://biology-forums.com/index.php?topic=577621>

Question 1332

When considering fixed operating cost increases, a financial manager must weigh the increased financial risk associated with greater operating leverage against the expected increase in returns.

Answer: <https://biology-forums.com/index.php?topic=577084>

Question 1333

A firm purchased goods on January 27 with a purchase price of \$1,000 and credit terms of 2/10 net 30 EOM. The firm paid for these goods on February 9. The firm must pay _____ for the goods.

- A) \$1,000
- B) \$980
- C) \$800
- D) \$900

Answer: <https://biology-forums.com/index.php?topic=577606>

Question 1334

The combination of a dress manufacturer and a credit bureau is an example of _____.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578008>

Question 1335

Mr. Jackson has been awarded a bonus for his outstanding work. His employer offers him a choice of a lump-sum of \$5,000 today, or an annuity of \$1,250 a year for the next five years. Which option should Mr. Jackson choose if his opportunity cost is 9 percent?

Answer: <https://biology-forums.com/index.php?topic=575828>

Question 1336

In the EOQ model, the total cost is minimized at the point where the order costs and carrying costs are equal.

Answer: <https://biology-forums.com/index.php?topic=577408>

Question 1337

Match each marketable security with its description.

- (a) Eurodollar deposit
- (b) Banker's acceptance
- (c) Federal agency issue
- (d) Commercial paper
- (e) Repurchase agreement
- (f) Treasury bill
- (g) Money market mutual fund
- (h) Negotiable certificate of deposit
- (i) Treasury note

1. _____ A short term, unsecured promissory note issued by a corporation.
2. _____ An obligation of the U.S. Treasury with common maturities of 91 to 182 days.
3. _____ A portfolio of marketable securities.
4. _____ An arrangement whereby a bank or securities dealer sells specific marketable securities to a firm and agrees to purchase them in the future.
5. _____ An obligation of the U.S. Treasury with mutual maturities of between one and seven years.
6. _____ Negotiable instrument evidencing the deposit of a certain number of dollars in a commercial bank.
7. _____ An instrument issued by the Federal National Mortgage Association.
8. _____ Funds deposited in banks located outside the U.S. and denominated in U.S. dollars.
9. _____ Short term credit arrangement used by businesses to finance transactions with foreign countries or firms with unknown credit capacities.

Answer: <https://biology-forums.com/index.php?topic=577582>

Question 1338

Treasury stock is generally reclassified as class B common stock and has voting rights.

Answer: <https://biology-forums.com/index.php?topic=576234>

Question 1339

The dominant organized options exchange in which options are traded is the Chicago Board Options Exchange (CBOE).

Answer: <https://biology-forums.com/index.php?topic=577922>

Question 1340

FASB Standard No. 52 mandates that U.S.-based companies must translate their foreign-currency-denominated assets and liabilities into dollars using the _____.

- A) historical rate
- B) current rate
- C) average rate
- D) rate prescribed by the SEC

Answer: <https://biology-forums.com/index.php?topic=575501>

Question 1341

Renewal options are provisions frequently included in both operating and financial leases that allow the lessee to purchase the leased asset at maturity.

Answer: <https://biology-forums.com/index.php?topic=577780>

Question 1342

Preferred stockholders _____.

- A) do not have preference over common stockholders in the case of liquidation
- B) have preference over bondholders in the case of liquidation
- C) do not have preference over bondholders in the case of liquidation
- D) have preference over creditors in the case of liquidation

Answer: <https://biology-forums.com/index.php?topic=576223>

Question 1343

Find the present value of the following stream of a firm's cash flows, assuming that the firm's opportunity cost is 9 percent.

- A) \$ 13,252
- B) \$141,588
- C) \$ 10,972
- D) \$ 79,345

Answer: <https://biology-forums.com/index.php?topic=575841>

Question 1344

If a firm's variable costs per unit increase, the firm's _____.

- A) financial breakeven point will decrease
- B) operating breakeven point will increase
- C) sale price per unit will decrease
- D) fixed costs per unit will increase

Answer: <https://biology-forums.com/index.php?topic=576996>

Question 1345

To buy his favorite car, Larry is planning to accumulate money by investing his Christmas bonuses for the next five years in a security which pays a 10 percent annual rate of return. The car will cost \$20,000 at the end of the fifth year and Larry's Christmas bonus is \$3,000 a year. Will Larry accumulate enough money to buy the car?

Answer: <https://biology-forums.com/index.php?topic=575929>

Question 1346

The overriding objective of the capital structure decision should be to choose the level of debt that results in the largest possible share price.

Answer: <https://biology-forums.com/index.php?topic=577133>

Question 1347

The three basic ratios used in the DuPont system of analysis are _____.

- A) net profit margin, total asset turnover, and return on investment
- B) net profit margin, total asset turnover, and return on equity
- C) net profit margin, total asset turnover, and equity multiplier
- D) net profit margin, financial leverage multiplier, and return on equity

Answer: <https://biology-forums.com/index.php?topic=575618>

Question 1348

In general, firms that are subject to a high degree of _____, relatively short production cycles, or both, tend to use shorter planning horizons.

- A) profitability
- B) financial certainty
- C) operating uncertainty
- D) financial planning

Answer: <https://biology-forums.com/index.php?topic=575705>

Question 1349

Time-series analysis is the evaluation of a firm's financial performance in comparison to other firm(s) at the same point in time.

Answer: <https://biology-forums.com/index.php?topic=575511>

Question 1350

In an LBO, 90 percent or more of the purchase price is financed with debt.

Answer: <https://biology-forums.com/index.php?topic=578019>

Question 1351

An advantage of a _____ is that it avoids giving shareholders false hopes.

- A) constant-payout-ratio policy
- B) regular dividend policy
- C) low-regular-and-extra dividend policy
- D) target dividend policy

Answer: <https://biology-forums.com/index.php?topic=577265>

Question 1352

Unlike creditors, equityholders are owners of the firm.

Answer: <https://biology-forums.com/index.php?topic=576161>

Question 1353

In an inefficient market, securities are typically in equilibrium, which means that they are fairly priced and that their expected returns equal their required returns.

Answer: <https://biology-forums.com/index.php?topic=576277>

Question 1354

Timothy borrows \$6,930 from the bank. For a four-year loan, the bank requires annual end-of-year payments of \$2,281.86. Calculate the interest rate on the loan.

Answer: <https://biology-forums.com/index.php?topic=575926>

Question 1355

The _____ is the rate of return that a firm must earn on its investments in order to maintain the market value of its stock.

- A) yield to maturity
- B) cost of capital
- C) internal rate of return
- D) modified internal rate of return

Answer: <https://biology-forums.com/index.php?topic=576546>

Question 1356

The value of a firm measured as the sum of the values of its operating units if each were sold separately is known as a firm's breakup value.

Answer: <https://biology-forums.com/index.php?topic=578032>

Question 1357

Collection float is experienced by a payer and is a delay in the receipt of funds.

Answer: <https://biology-forums.com/index.php?topic=577514>

Question 1358

A firm with a low return on total assets can improve its return on equity, all else remaining the same, by _____.

- A) increasing its debt ratio
- B) increasing its total asset turnover
- C) decreasing its debt ratio
- D) decreasing its total asset turnover

Answer: <https://biology-forums.com/index.php?topic=575617>

Question 1359

Accruals are liabilities for services received for which payment has yet to be made.

Answer: <https://biology-forums.com/index.php?topic=577618>

Question 1360

Which of the following represents a way of coping with uncertainty in a cash budget?

- A) careful estimation of cash budgets outputs
- B) developing a pro forma income statement to forecast sales and then express the various income statement items as percentage of projected sales
- C) always using the prior year's data for estimates of the future
- D) using scenario analysis, or "what if" approach, to analyze cash flows under a variety of circumstances

Answer: <https://biology-forums.com/index.php?topic=575745>

Question 1361

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Previous Edition

AACSB Tag: Analytic Skills

14) A firm's current structure is as follows:

*Secured by fixed assets.

Suggest a recapitalized capital structure that would reduce the debt/equity ratio (several solutions are feasible). Calculate the d/e ratio for the pre-reorganization capital structure and the post-reorganization capital structure.

Answer: <https://biology-forums.com/index.php?topic=578146>

Question 1362

_____ float is the delay between the receipt of a check and the actual deposit of it into a firm's account.

- A) Disbursement
- B) Deposit
- C) Processing

D) Clearing

Answer: <https://biology-forums.com/index.php?topic=577544>

Question 1363

A wealthy industrialist wishes to establish a \$2,000,000 trust fund which will provide income for his grandchild into perpetuity. He stipulates in the trust agreement that the principal may not be distributed. The grandchild may only receive the interest earned. If the interest rate earned on the trust is expected to be at least 7 percent in all future periods, how much income will the grandchild receive each year?

Answer: <https://biology-forums.com/index.php?topic=575824>

Question 1364

In computing the weighted average cost of capital, from a strictly theoretical point of view, the preferred weighing scheme is target market value proportions.

Answer: <https://biology-forums.com/index.php?topic=576643>

Question 1365

If a firm is subject to capital rationing, it is able to accept all independent projects that provide an acceptable return.

Answer: <https://biology-forums.com/index.php?topic=576678>

Question 1366

Under MACRS, an asset which originally cost \$100,000 is being depreciated using a 10-year normal recovery period. The depreciation expense in year 11 is _____.

- A) \$3,000
- B) \$4,000
- C) \$0
- D) \$6,000

Answer: <https://biology-forums.com/index.php?topic=575638>

Question 1367

NASDAQ is considered an OTC market since it is not recognized by the SEC as a "listed exchange."

Answer: <https://biology-forums.com/index.php?topic=575368>

Question 1368

Because of the basic mathematics of compounding and discounting, the risk-adjusted discount rate (RADR) approach implicitly assumes that risk is an increasing function of time.

Answer: <https://biology-forums.com/index.php?topic=576918>

Question 1369

When the U.S. currency gains in value, the dollar value of a foreign-currency-denominated portfolio of assets decline.

Answer: <https://biology-forums.com/index.php?topic=576446>

Question 1370

Primary and secondary markets are markets for short-term and long-term securities, respectively.

Answer: <https://biology-forums.com/index.php?topic=575357>

Question 1371

The amount of preferred stock dividends that must be paid each year may be stated in dollars or as a percentage of the firm's earnings.

Answer: <https://biology-forums.com/index.php?topic=576584>

Question 1372

A firm has issued 10 percent preferred stock, which sold for \$100 per share par value. The cost of issuing and selling the stock was \$2 per share. The firm's marginal tax rate is 40 percent. The cost of the preferred stock is _____.

- A) 3.9 percent
- B) 6.1 percent
- C) 9.8 percent
- D) 10.2 percent

Answer: <https://biology-forums.com/index.php?topic=576589>

Question 1373

Which of the following is a reason for growth of the Euromarket?

- A) The sudden decline of U.S dollars after the introduction of Euro.
- B) The functional-currency-denominated financial statements of the foreign subsidiary were translated into the parent's currency without authorization.
- C) The existence of offshore centers caused massive financial losses and problems for MNCs.
- D) The consistently large U.S. balance-of-payments deficits helped scatter dollars around the world.

Answer: <https://biology-forums.com/index.php?topic=578168>

Question 1374

The security market line is not stable over time and shifts over time in response to changing inflationary expectations.

Answer: <https://biology-forums.com/index.php?topic=576507>

Question 1375

Although a firm's existing mix of financing sources may reflect its target capital structure, it is ultimately _____.

- A) the internal rate of return that is relevant for evaluating the firm's future investment opportunities
- B) the marginal cost of capital that is relevant for evaluating the firm's future investment opportunities
- C) the risk-free rate of return that is relevant for evaluating the firm's future investment opportunities
- D) the risk-free rate of return that is relevant for evaluating the firm's future financing opportunities

Answer: <https://biology-forums.com/index.php?topic=576549>

Question 1376

Risk can be assessed by means of scenario analysis and probability distributions.

Answer: <https://biology-forums.com/index.php?topic=576379>

Question 1377

Which of the following strategies will help in minimizing political risk in international capital budgeting decisions?

- A) by hedging the cash flows using currency futures and options
- B) structuring the financing of such investments as equity rather than as debt
- C) structuring the financing of such investments as debt rather than as equity
- D) financing the project, in whole or in part, in domestic currency

Answer: <https://biology-forums.com/index.php?topic=576912>

Question 1378

In the EBIT-EPS approach to capital structure, risk is represented by _____.

- A) the slope of the capital market line
- B) shifts in the cost of debt capital
- C) the slope of the capital structure line
- D) shifts in the times-interest-earned ratio

Answer: <https://biology-forums.com/index.php?topic=577152>

Question 1379

A strike price is a price at which the holder of a call option can buy a specified amount of stock at any time prior to the option's expiration date.

Answer: <https://biology-forums.com/index.php?topic=577917>

Question 1380

The primary goal of a financial manager is _____.

- A) minimizing risk
- B) maximizing profit
- C) maximizing wealth
- D) minimizing return

Answer: <https://biology-forums.com/index.php?topic=575255>

Question 1381

The combination of two or more companies to form a completely new corporation is a _____.

- A) congeneric formation
- B) consolidation
- C) spin-off
- D) conglomerate merger

Answer: <https://biology-forums.com/index.php?topic=577980>

Question 1382

Bonds that can be redeemed at par at the option of their holders either at specific date after the date of issue and every 1 to 5 years thereafter or when and if the firm takes specified actions such as being acquired, acquiring another company, or issuing a large amount of additional debt are called _____.

- A) zero coupon bonds
- B) junk bonds
- C) floating-rate bonds
- D) putable bonds

Answer: <https://biology-forums.com/index.php?topic=576092>

Question 1383

Which of the following is a difference between debt and equity capital?

- A) Debt capital does not require periodic payments, whereas equity capital requires period payments.
- B) Debt capital requires a fixed rate of return, whereas equity capital requires returns in proportion to profits.
- C) Debt capital does not provides a tax shield, whereas equity capital provides a tax shield.
- D) Debt capital affects operating leverage, whereas equity capital affects financial leverage.

Answer: <https://biology-forums.com/index.php?topic=577114>

Question 1384

A violation of preferred stock restrictive covenants usually permits preferred shareholders to _____.

- A) force the company into bankruptcy
- B) suit against the shareholders
- C) force the retirement of the preferred stock at or above its par value
- D) force the company to repurchase the shares at a stated amount below par

Answer: <https://biology-forums.com/index.php?topic=576221>

Question 1385

A convertible security that cannot be forced into conversion using the call feature is _____.

- A) a general obligation bond
- B) a debenture
- C) an overhanging issue
- D) a noncallable common equity issue

Answer: <https://biology-forums.com/index.php?topic=577846>

Question 1386

The purpose of nonvoting common stock is to _____.

- A) limit the voting power of the management
- B) allow the minority interest to elect one director
- C) raise capital without giving up any voting control
- D) give preference on distribution of earnings to those shareholders who own the stock

Answer: <https://biology-forums.com/index.php?topic=576251>

Question 1387

Lower (less positive and more negative) the correlation between asset returns, _____.

- A) lesser the potential diversification of risk
- B) greater the potential diversification of risk
- C) lower the potential profit
- D) lesser the assets have to be monitored

Answer: <https://biology-forums.com/index.php?topic=576449>

Question 1388

Financial managers evaluating decision alternatives or potential actions must consider _____.

- A) only risk
- B) only return
- C) either risk or return
- D) risk, return, and the impact on share price

Answer: <https://biology-forums.com/index.php?topic=575267>

Question 1389

Which of the following is excluded when calculating quick ratio?

- A) accounts receivable
- B) accounts payable
- C) cash
- D) inventory

Answer: <https://biology-forums.com/index.php?topic=575562>

Question 1390

Profitability ratios capture both risk and return.

Answer: <https://biology-forums.com/index.php?topic=575523>

Question 1391

A firm currently has outstanding a 5 percent, \$1,000 convertible bond. The bond is convertible into 25 shares of common stock and callable at \$1,050. The current market price of the firm's stock is \$41 per share. The bond holder will _____.

- A) allow the call to be exercised
- B) convert the bond into stock
- C) sell the bond on the secondary market
- D) do nothing and wait until the stock price goes up further

Answer: <https://biology-forums.com/index.php?topic=577875>

Question 1392

Treasury notes generate lower returns than U.S. Treasury bills.

Answer: <https://biology-forums.com/index.php?topic=577534>

Question 1393

The shareholder receiving a stock dividend receives a share of common stock of equal value to their existing shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=577270>

Question 1394

Commercial paper is issued in multiples of _____.

- A) \$1,000 or more
- B) \$10,000 or more
- C) \$100,000 or more
- D) \$1,000,000 or more

Answer: <https://biology-forums.com/index.php?topic=577699>

Question 1395

For a given positive interest rate, the future value of \$100 increases with the passage of time. Thus, the longer the period of time, the greater the future value.

Answer: <https://biology-forums.com/index.php?topic=575772>

Question 1396

The required return on a bond is likely to differ from the stated interest rate for either of two reasons: 1) economic conditions have changed, causing a shift in the basic cost of long-term funds, or 2) the firm's risk has changed.

Answer: <https://biology-forums.com/index.php?topic=576121>

Question 1397

The date of record (dividends) is the actual date on which a company will mail the dividend payment to the holders of record.

Answer: <https://biology-forums.com/index.php?topic=577170>

Question 1398

The value of a bond is the present value of its interest payments plus _____.

- A) future value of its par value
- B) present value of its par value
- C) its face value
- D) present value of interest payment

Answer: <https://biology-forums.com/index.php?topic=576127>

Question 1399

In a(n) _____, a firm specifies a range of prices that it is willing to repurchase shares and the quantity of shares that it desires.

- A) Dutch auction
- B) tender offer
- C) American option
- D) self-tender offer

Answer: <https://biology-forums.com/index.php?topic=577189>

Question 1400

The present value of an ordinary annuity of \$2,350 each year for eight years, assuming an opportunity cost of 11 percent, is _____.

- A) \$ 1,020
- B) \$27,869
- C) \$18,800
- D) \$12,093

Answer: <https://biology-forums.com/index.php?topic=575813>

Question 1401

Contrary to convertibles, warrants provide for the injection of additional equity capital into a firm immediately.

Answer: <https://biology-forums.com/index.php?topic=577886>

Question 1402

High-quality (high-rated) bonds provide lower returns than lower-quality (low-rated) bonds.

Answer: <https://biology-forums.com/index.php?topic=576045>

Question 1403

Darling Paper Container, Inc. purchased several machines at a total cost of \$300,000. The installation cost for this equipment was \$25,000. The firm plans to depreciate the equipment using the MACRS 5-year normal recovery period. Prepare a depreciation schedule showing the depreciation expense for each year.

Answer: <https://biology-forums.com/index.php?topic=575643>

Question 1404

Whenever the percentage change in earnings before interest and taxes resulting from a given percentage change in sales is greater than the percentage change in sales, operating leverage exists.

Answer: <https://biology-forums.com/index.php?topic=577020>

Question 1405

Inflation can distort _____.

- A) book value of inventory costs
- B) market value of revenue
- C) market value of sales
- D) book value of revenue

Answer: <https://biology-forums.com/index.php?topic=575538>

Question 1406

Discuss and contrast the three types of loans discussed in the text that use inventory as collateral: floating inventory liens, trust receipt inventory loans, and warehouse receipt loans.

Answer: <https://biology-forums.com/index.php?topic=577755>

Question 1407

_____ is concerned with design and delivery of advice and financial products to individuals, businesses, and governments.

- A) Managerial finance
- B) Auditing services
- C) Financial services
- D) Cost accounting

Answer: <https://biology-forums.com/index.php?topic=575221>

Question 1408

The DuPont system merges the income statement and balance sheet into two summary measures of profitability, _____.

- A) net profit margin, and return on total assets
- B) net profit margin, and return on equity
- C) return on total assets, and return on common equity
- D) net profit margin, and price/earning ratio

Answer: <https://biology-forums.com/index.php?topic=575610>

Question 1409

A corporation _____.

- A) must use the straight-line depreciation method for tax purposes and double declining depreciation method financial reporting purposes
- B) can use straight-line depreciation method for tax purposes and MACRS depreciation method financial reporting purposes
- C) can use different depreciation methods for tax and financial reporting purposes
- D) must use different depreciation method for tax purposes, but strictly mandated depreciation methods for financial reporting purposes

Answer: <https://biology-forums.com/index.php?topic=575634>

Question 1410

Derivatives are used by corporations as a useful tool for managing certain aspects of a firm's risk.

Answer: <https://biology-forums.com/index.php?topic=577756>

Question 1411

Tony's Beach T-Shirts has fixed annual operating costs of \$75,000. Tony retails his T-shirts for \$14.99 each and the variable cost per T-shirt is \$4.99. Based on this information, the breakeven sales level in dollars is _____.

- A) \$125,495
- B) \$112,425
- C) \$108,995
- D) \$110,495

Answer: <https://biology-forums.com/index.php?topic=577010>

Question 1412

In a limited partnership, all partners' liabilities are limited to their investment in the partnership.

Answer: <https://biology-forums.com/index.php?topic=575231>

Question 1413

Which of the following is an unsophisticated capital budgeting technique?

- A) internal rate of return
- B) payback period
- C) profitability index
- D) net present value

Answer: <https://biology-forums.com/index.php?topic=576721>

Question 1414

A firm has fixed operating costs of \$650,000, a sales price per unit of \$20, and a variable cost per unit of \$13. At a base sales level of 500,000 units, the firm's degree of operating leverage is _____.

- A) 1.07
- B) 1.11
- C) 1.18
- D) 1.23

Answer: <https://biology-forums.com/index.php?topic=577039>

Question 1415

The major type of loan made by banks to businesses is the _____.

- A) fixed-asset-based loan
- B) short-term secured loan
- C) short-term, self-liquidating loan
- D) capital improvement loan

Answer: <https://biology-forums.com/index.php?topic=577658>

Question 1416

The objective of capital rationing is to select the group of projects that provides the highest overall net present value and does not require more dollars than are budgeted.

Answer: <https://biology-forums.com/index.php?topic=576942>

Question 1417

In a period of rising sales, utilizing past cost and expense ratios (percent-of-sales method) when preparing pro forma financial statements will tend to _____.

- A) overstate costs and overstate profits
- B) overstate costs and understate profits
- C) understate costs and overstate profits
- D) understate costs and understate profits

Answer: <https://biology-forums.com/index.php?topic=575752>

Question 1418

Net present value profiles are most useful when selecting among mutually exclusive projects.

Answer: <https://biology-forums.com/index.php?topic=576778>

Question 1419

When assessing the fixed-payment coverage ratio, _____.

- A) the lower its value the more risky is the firm
- B) the lower its value, the higher is the firm's financial leverage
- C) preferred stock dividend payments can be disregarded
- D) the higher its value, lesser is its reliability to pay up the debts

Answer: <https://biology-forums.com/index.php?topic=575591>

Question 1420

_____ is a guide to a firm's value if it is assumed that investors value the earnings of a given firm in the same way they do the average firm in the industry.

- A) Liquidation value
- B) Book value
- C) The P/E multiple
- D) The present value of the dividends

Answer: <https://biology-forums.com/index.php?topic=576329>

Question 1421

Convertible bonds normally have _____ to permit the issuer to retire or encourage conversion of outstanding convertibles when appropriate.

- A) a put feature
- B) a call feature
- C) a stock purchase warrant
- D) a swap feature

Answer: <https://biology-forums.com/index.php?topic=577843>

Question 1422

GAAP is the accounting profession's rule-setting body.

Answer: <https://biology-forums.com/index.php?topic=575439>

Question 1423

Which of the following is true of long-term funds?

- A) They provide an easy way to reduce financing costs because they are relatively cheaper than short-term funds.
- B) They are a type of investment fund which invests in money market investments of high quality and low risk.
- C) They are the sources that supply the financing necessary to support a firm's capital budgeting activities.
- D) They are the funds available to a business on the basis of inventory held and require detailed inventory tracking.

Answer: <https://biology-forums.com/index.php?topic=576555>

Question 1424

Foreign direct investment is the transfer of capital, managerial, and technical assets to a foreign country.

Answer: <https://biology-forums.com/index.php?topic=576902>

Question 1425

The use of the _____ is especially helpful in valuing firms that are not publicly traded.

- A) liquidation value
- B) book value
- C) P/E multiple
- D) present value of the dividends

Answer: <https://biology-forums.com/index.php?topic=576331>

Question 1426

An action on the part of a firm that increases the level of expected cash flows without a corresponding increase in risk should reduce share value; an action that reduces the level of expected cash flows without a corresponding decline in risk should increase share value.

Answer: <https://biology-forums.com/index.php?topic=576344>

Question 1427

The expected value, standard deviation of returns, and coefficient of variation for asset A are _____. (See below.)

- Asset A
- A) 10 percent, 8 percent, and 1.25, respectively
 - B) 9.33 percent, 8 percent, and 2.15, respectively
 - C) 9.35 percent, 4.68 percent, and 2.00, respectively
 - D) 9.35 percent, 2.76 percent, and 0.295, respectively

Answer: <https://biology-forums.com/index.php?topic=576410>

Question 1428

The market rewards firms that adopt a constant dividend payout policy rather than a fixed or increasing level of dividends through higher share prices.

Answer: <https://biology-forums.com/index.php?topic=577234>

Question 1429

Any Ba rated bond or lower would be considered speculative or "junk."

Answer: <https://biology-forums.com/index.php?topic=576049>

Question 1430

A firm's year-end retained earnings balances are \$670,000 and \$560,000, for 2014 and 2015 respectively. The firm paid \$10,000 in dividends in 2015.

The firm's net profit after taxes in 2015 was _____.

- A) -\$100,000
- B) -\$110,000
- C) \$100,000
- D) \$110,000

Answer: <https://biology-forums.com/index.php?topic=575496>

Question 1431

A firm's capital structure is the mix of the current liabilities, long-term debt, and equity maintained by the firm.

Answer: <https://biology-forums.com/index.php?topic=576960>

Question 1432

The market value of a warrant is generally below the theoretical value of the warrant.

Answer: <https://biology-forums.com/index.php?topic=577896>

Question 1433

Profit maximization as the goal of the firm is not ideal because _____.

- A) profits are only accounting measures
- B) cash flows are more representative of financial strength
- C) profit maximization does not consider risk
- D) profits today are less desirable than profits earned in future years

Answer: <https://biology-forums.com/index.php?topic=575262>

Question 1434

High net cash flow with fixed risk is generally associated with a higher share price.

Answer: <https://biology-forums.com/index.php?topic=575243>

Question 1435

The cost of preferred stock is the ratio of the preferred stock dividend to a firm's net proceeds from the sale of the preferred stock.

Answer: <https://biology-forums.com/index.php?topic=576586>

Question 1436

Dividends provide information about a firm's current performance.

Answer: <https://biology-forums.com/index.php?topic=577167>

Question 1437

A _____ is a professionally managed portfolio of marketable securities and is sold in fractional parts.

- A) negotiable certificate of deposit
- B) repurchase agreement
- C) money market mutual fund
- D) commercial paper issue

Answer: <https://biology-forums.com/index.php?topic=577565>

Question 1438

In defending against hostile takeover attempts, a company will approve anti-takeover amendments to the corporate charter that constrain the firm's ability to transfer managerial control of the firm as a result of a merger. This is called the _____ strategy.

- A) golden parachute
- B) greenmail
- C) poison pill
- D) shark repellent

Answer: <https://biology-forums.com/index.php?topic=578106>

Question 1439

Cross-sectional analysis involves the comparison of different firms' financial ratios at the same point in time.

Answer: <https://biology-forums.com/index.php?topic=575512>

Question 1440

Which of the following is a reason for mergers?

- A) to reduce common stock outstanding
- B) to gain monopoly control over the markets
- C) to decrease the level of provision for doubtful accounts
- D) to gain increased managerial skills

Answer: <https://biology-forums.com/index.php?topic=578002>

Question 1441

A firm has the balance sheet accounts, Common Stock and Paid-in Capital in Excess of Par, with values of \$40,000 and \$500,000, respectively. The firm has 40,000 common shares outstanding. If the firm had a par value of \$1, the stock originally sold for _____.

- A) \$11.50/share
- B) \$12.50/share
- C) \$13.50/share
- D) \$15.50/share

Answer: <https://biology-forums.com/index.php?topic=576264>

Question 1442

The _____ method of developing a pro forma balance sheet estimates values of certain balance sheet accounts while external financing is used as a balancing, or plug, figure.

- A) percent-of-sales
- B) accrual
- C) judgmental
- D) cash

Answer: <https://biology-forums.com/index.php?topic=575760>

Question 1443

The value of any asset is the _____.

- A) sum of all future cash flows it is expected to provide over the relevant time period
- B) sum of the present values of all future cash flows it is expected to provide over the relevant time period
- C) present value of the sum of all future cash flows it is expected to provide over the relevant time period
- D) sum of all compounded future cash flows it is expected to provide over the relevant time period

Answer: <https://biology-forums.com/index.php?topic=576107>

Question 1444

A local bank is offering a zero-coupon certificate of deposit for \$25,000. At maturity, three years from now, the investor will receive \$32,000. What is the rate of return on this investment?

- A) 3 percent
- B) 6 percent
- C) 9 percent
- D) 12 percent

Answer: <https://biology-forums.com/index.php?topic=575893>

Question 1445

The earnings per share of a merged firm are generally above the premerger earnings per share of one firm and below the premerger earnings per share of the other, after making the necessary adjustment for the ratio of exchange.

Answer: <https://biology-forums.com/index.php?topic=578055>

Question 1446

Which type of dividend payment policy has the disadvantage that if a firm's earnings drop or if a loss occurs in a given period, dividends may be low or nonexistent?

- A) constant-payout-ratio policy
- B) regular dividend policy
- C) low-regular-and-extra dividend policy
- D) stock dividend policy

Answer: <https://biology-forums.com/index.php?topic=577256>

Question 1447

Renewal options are provisions normally included in an operating lease that grant the lessee the right to re-lease assets at the expiration of the lease.

Answer: <https://biology-forums.com/index.php?topic=577778>

Question 1448

The purpose of the debt covenant that prohibits borrowers from entering into certain types of leases is to _____.

- A) protect the lender by controlling the risk and marketability of the borrower's security investments alternatives
- B) limit the amount of fixed-payment obligations
- C) ensure a cash shortage does not cause an inability to meet current obligations
- D) limit the annual cash dividends paid by the firm

Answer: <https://biology-forums.com/index.php?topic=576020>

Question 1449

In a bond indenture, the term "security interest" refers to collateral pledged against the bond.

Answer: <https://biology-forums.com/index.php?topic=576010>

Question 1450

A firm's free cash flow (FCF) represents the amount of cash flow available to investors (stockholders and bondholders) after the firm has met all operating needs and after having paid for net fixed asset investments and net current asset investments.

Answer: <https://biology-forums.com/index.php?topic=575649>

Question 1451

To pay for her college education, Gina is saving \$2,000 at the beginning of each year for the next eight years in a bank account paying 12 percent interest. How much will Gina have in that account at the end of 8th year?

- A) \$16,000
- B) \$17,920
- C) \$24,600
- D) \$27,552

Answer: <https://biology-forums.com/index.php?topic=575817>

Question 1452

The shareholder receiving a stock dividend receives _____.

A) a share of common stock of equal value to their existing shares of common stock
B) cash
C) additional shares of common stock and cash
D) nothing of value

Answer: <https://biology-forums.com/index.php?topic=577274>

Question 1453

Credit Scoring Policy

Jia's Jewelry uses the credit scoring technique to evaluate retail applications. The financial and credit characteristics considered and weights indicating their relative importance in the credit decision are shown above. The firm's credit standards are to accept all applicants with credit scores of 85 or more, to extend limited credit to applicants with scores ranging from 75 to 84, and to reject all applicants below 75. The firm is currently processing two applicants. The scores of each applicant on each of the financial and credit characteristics are summarized above. Would you recommend either of these applicants for credit extension?

Answer: <https://biology-forums.com/index.php?topic=577483>

Question 1454

The future value of \$200 received today and deposited for three years in an account which pays semiannual interest of 8 percent is _____.

- A) \$253.00
B) \$252.00
C) \$158.00
D) \$134.66

Answer: <https://biology-forums.com/index.php?topic=575858>

Question 1455

Operating leverage results from the existence of operating costs in a firm's income stream.

Answer: <https://biology-forums.com/index.php?topic=577017>

Question 1456

At the operating breakeven point, _____ equals zero.

- A) sales revenue
B) fixed operating costs
C) variable operating costs
D) earnings before interest and taxes

Answer: <https://biology-forums.com/index.php?topic=576993>

Question 1457

Assume you have a choice between two deposit accounts. Account X has an annual percentage rate of 12.25 percent but with interest compounded monthly. Account Y has an annual percentage rate of 12.20 percent with interest compounded continuously. Which account provides the highest effective annual return?

Answer: <https://biology-forums.com/index.php?topic=575867>

Question 1458

Beijing Berings is considering purchasing a small firm in the same line of business. The purchase would be financed by the sale of common stock or a bond issue. The financial manager needs to evaluate how the two alternative financing plans will affect the earnings potential of the firm. Total financing required is \$4.5 million. The firm currently has \$20,000,000 of 12 percent bonds and 600,000 common shares outstanding. The firm can arrange financing of the \$4.5 million through a 14 percent bond issue or the sale of 100,000 shares of common stock. The firm has a 40 percent tax rate.

- (a) What is the degree of financial leverage for each plan at \$7,000,000 of EBIT?
(b) What is the financial breakeven point for each plan?

Answer: <https://biology-forums.com/index.php?topic=577060>

Question 1459

The financial manager must look beyond financial statements to obtain insight into developing or existing problems since the accrual accounting data do not fully describe the circumstances of a firm.

Answer: <https://biology-forums.com/index.php?topic=575291>

Question 1460

Gordon's "bird-in-the-hand" argument suggests that _____.

- A) dividends are irrelevant
- B) firms should have a 100 percent payout policy
- C) shareholders are risk averse and attach less risk to current dividends
- D) the market value of a firm is unaffected by dividend policy

Answer: <https://biology-forums.com/index.php?topic=577220>

Question 1461

Danny Joe borrows \$10,500 from the bank at 11 percent annually compounded interest to be repaid in six equal annual installments. The interest paid in the first year is _____.

- A) \$1,155
- B) \$2,481
- C) \$ 144
- D) \$1,327

Answer: <https://biology-forums.com/index.php?topic=575904>

Question 1462

Which of the following is an example of carrying cost?

- A) insurance of goods in transit
- B) transportation cost
- C) insurance cost
- D) cost of inventory

Answer: <https://biology-forums.com/index.php?topic=577427>

Question 1463

When determining the after-tax cost of a bond, the face value of the issue must be adjusted to the net proceeds amounts by considering _____.

- A) the risks
- B) the flotation costs
- C) the approximate returns
- D) the taxes

Answer: <https://biology-forums.com/index.php?topic=576575>

Question 1464

A firm is evaluating two mutually exclusive projects that have unequal lives. The firm must evaluate the projects using the annualized net present value approach and recommend which project they should select. The firm's cost of capital has been determined to be 18 percent, and the projects have the following initial investments and cash flows:

Answer: <https://biology-forums.com/index.php?topic=576939>

Question 1465

The _____ the coefficient of variation, the _____ the risk.

- A) lower; lower
- B) higher; lower
- C) lower; higher
- D) more stable; higher

Answer: <https://biology-forums.com/index.php?topic=576408>

Question 1466

A firm may face increase in the weighted average cost of capital either when retained earnings have been exhausted or due to increases in debt, preferred stock, and common equity costs as additional new funds are required.

Answer: <https://biology-forums.com/index.php?topic=576640>

Question 1467

Which of the following are the three basic ways of lending unsecured, short-term funds by commercial banks?

- A) mortgage-backed securities, T-bonds, and commercial paper
- B) single-payment note, lines of credit, and revolving credit agreements
- C) T-bills, municipal bonds, and commercial paper
- D) commercial paper, real estate bonds, and corporate bonds

Answer: <https://biology-forums.com/index.php?topic=577664>

Question 1468

As the typical cash budget shows cash flows on a monthly basis, the information provided by the cash budget is adequate for ensuring solvency.

Answer: <https://biology-forums.com/index.php?topic=575727>

Question 1469

Assuming a risk-free rate of 8 percent and a market return of 12 percent, would a wise investor acquire a security with a beta of 1.5 and a rate of return of 14 percent given the facts above?

Answer: <https://biology-forums.com/index.php?topic=576531>

Question 1470

Minimizing the weighted average cost of capital allows management to undertake a larger number of profitable projects, thereby further increasing the value of a firm.

Answer: <https://biology-forums.com/index.php?topic=577125>

Question 1471

Ten years ago, Tom purchased a painting for \$300. The painting is now worth \$1,020. Tom could have deposited \$300 in a savings account paying 12 percent interest compounded annually. Which of these two options would have provided Tom with a higher return?

Answer: <https://biology-forums.com/index.php?topic=575919>

Question 1472

Hayley Medical, Inc. is evaluating the acquisition of Health-o-Matic, Inc., which had a loss carryforward of \$3.75 million, resulting from earlier operations. Hayley Medical can purchase Health-o-Matic for \$4.5 million and liquidate the assets for \$3.25 million. Hayley Medical expects earnings before taxes in the three years following the acquisition to be as follows:

(These earnings are assumed to fall within the annual limit legally allowed for application of a tax loss carryforward resulting from the proposed acquisition.) Hayley Medical has a 40 percent tax rate and a cost of capital of 15 percent. The approximate maximum cash price Hayley Medical would be willing to pay for Health-o-Matic is _____.

- A) \$4,757,000
- B) \$4,253,000
- C) \$4,409,600
- D) \$3,750,000

Answer: <https://biology-forums.com/index.php?topic=578068>

Question 1473

The negative implications for the operation of a foreign-based subsidiary due to joint venture laws and restrictions can result in _____.

- A) high degree of leverage
- B) deficit in balance-of-payment position for the home country
- C) difficulties obtaining the remission of profits
- D) manipulation of tax rules

Answer: <https://biology-forums.com/index.php?topic=578169>

Question 1474

Gong Li has recently inherited \$10,000 and is considering purchasing 10 bonds of the Lucky Corporation. The bond has a par value of \$1,000 with 10 percent coupon rate and will mature in 10 years. Does Gong Li have enough money to buy 10 bonds if the required rate of return is 9 percent?

Answer: <https://biology-forums.com/index.php?topic=576147>

Question 1475

Compute the initial purchase price for an asset with book value of \$34,800 and total accumulated depreciation of \$85,200.

Answer: <https://biology-forums.com/index.php?topic=576869>

Question 1476

The higher cost of unsecured as opposed to secured borrowing is due to the greater risk of default.

Answer: <https://biology-forums.com/index.php?topic=577719>

Question 1477

A firm's operating cycle (OC) is simply the sum of the average age of inventory (AAI) and the average payment period (APP).

Answer: <https://biology-forums.com/index.php?topic=577325>

Question 1478

_____ results from the use of fixed-cost assets or funds to magnify returns to a firm's owners.

- A) Long-term debt
- B) Equity
- C) Leverage
- D) Capital structure

Answer: <https://biology-forums.com/index.php?topic=576982>

Question 1479

Scenario analysis is a behavioral approach that evaluates the impact on a firm's return through simultaneous changes in a number of variables.

Answer: <https://biology-forums.com/index.php?topic=576889>

Question 1480

Nico Corporation has cost of goods sold of \$300,000 and inventory of \$30,000, then the inventory turnover is _____ and the average age of inventory is _____.

- A) 36.5; 10
- B) 10; 36.5
- C) 36.0; 10
- D) 30; 36.0

Answer: <https://biology-forums.com/index.php?topic=575564>

Question 1481

Many holders of convertible bonds will not convert when the firm's common stock price exceeds the conversion price because _____.

- A) the common stock price may go up further and the firm cannot have any other mechanism to stop the bondholders from taking undue advantage of the conversion feature
- B) they already have the market price benefit and may still receive fixed periodic interest payments
- C) of the dilution of EPS
- D) interest payments are tax deductible and it will affect their earnings

Answer: <https://biology-forums.com/index.php?topic=577853>

Question 1482

Find the future value at the end of year 3 of the following stream of cash flows received at the end of each year, assuming the firm can earn 17 percent on its investments.

- A) \$20,724
- B) \$20,127
- C) \$23,550
- D) \$23,350

Answer: <https://biology-forums.com/index.php?topic=575835>

Question 1483

At the operating breakeven point, the sales revenue is equal to the sum of the fixed and variable operating costs.

Answer: <https://biology-forums.com/index.php?topic=576970>

Question 1484

Zheng Corporation plans to issue new bonds to finance its expansion plans. In its efforts to price the issue, Zheng Corporation has identified a company of similar risk with an outstanding bond issue that has an 8 percent coupon rate having a maturity of ten years. This firm's bonds are currently selling for \$1,091.96. If interest is paid annually for both bonds, what must the coupon rate of the new bonds be in order for the issue to sell at par?

- A) 5.78%
- B) 6.88%
- C) 6.50%
- D) 6.71%

Answer: <https://biology-forums.com/index.php?topic=576132>

Question 1485

The two basic measures of liquidity are the debt-to-equity ratio and the asset turnover ratio.

Answer: <https://biology-forums.com/index.php?topic=575545>

Question 1486

Convertibles can be used as a form of deferred common stock financing.

Answer: <https://biology-forums.com/index.php?topic=577827>

Question 1487

A nonconventional cash flow pattern associated with capital investment projects consists of an initial outflow followed by a series of inflows.

Answer: <https://biology-forums.com/index.php?topic=576669>

Question 1488

Managerial finance is concerned with design and delivery of advice and financial products to individuals, businesses, and governments.

Answer: <https://biology-forums.com/index.php?topic=575220>

Question 1489

The effective rate of interest and compounding frequency are inversely related.

Answer: <https://biology-forums.com/index.php?topic=575853>

Question 1490

The key dimension of credit selection which analyzes an applicant's ability to repay the requested credit focused on cash flows available is _____.

- A) collateral
- B) capital
- C) conditions
- D) capacity

Answer: <https://biology-forums.com/index.php?topic=577465>

Question 1491

A corporate treasurer's focus tends to be more external, while the controller's focus is more internal.

Answer: <https://biology-forums.com/index.php?topic=575284>

Question 1492

Which of the following is true of changes in cash discount period?

- A) If a firm increases its cash discount period, the sales are expected to decrease, the bad debts are expected to decrease, and the profit per unit is expected to increase.
- B) If a firm decreases its cash discount period, the sales are expected to decrease, the bad debts are expected to decrease, and the profit per unit is expected to increase.
- C) If a firm increases its cash discount period, the sales are expected to increase, the bad debts are expected to decrease, and the profit per unit is expected to decrease.
- D) If a firm decreases its cash discount period, the sales are expected to decrease, the bad debts are expected to increase, and the profit per unit is expected to decrease.

Answer: <https://biology-forums.com/index.php?topic=577507>

Question 1493

A controller is commonly responsible for _____.

- A) managing cash
- B) financial accounting
- C) managing credit activities
- D) financial planning

Answer: <https://biology-forums.com/index.php?topic=575294>

Question 1494

A decrease in current assets and an increase in current liabilities will _____ net working capital, thereby _____ the risk of insolvency.

- A) increase; increasing
- B) decrease; increasing
- C) increase; reducing
- D) decrease; reducing

Answer: <https://biology-forums.com/index.php?topic=577316>

Question 1495

In a period of rising sales utilizing past cost and expense ratios (percent-of-sales method), when preparing pro forma financial statements and planning financing, will tend to _____.

- A) understate retained earnings and understate the additional financing needed
- B) overstate retained earnings and overstate the additional financing needed
- C) understate retained earnings and overstate the financing needed
- D) overstate retained earnings and understate the financing needed

Answer: <https://biology-forums.com/index.php?topic=575758>

Question 1496

Preferred stock has characteristics of debt since it provides a fixed periodic cash payment.

Answer: <https://biology-forums.com/index.php?topic=576194>

Question 1497

The danger that an unexpected change in the exchange rate between the dollar and the currency in which a project's cash flows are denominated will reduce the market value of that project's cash flow is called exchange rate risk.

Answer: <https://biology-forums.com/index.php?topic=576903>

Question 1498

Find the present value of the following stream of a firm's cash flows, assuming that the firm's opportunity cost is 14 percent.

- A) \$121,256
- B) \$ 69,000
- C) \$ 60,513
- D) \$ 51,903

Answer: <https://biology-forums.com/index.php?topic=575839>

Question 1499

In cash budgeting, the impact of depreciation is reflected in a reduction in tax payments.

Answer: <https://biology-forums.com/index.php?topic=575718>

Question 1500

A _____ is an unsigned check drawn on one of a firm's bank accounts and deposited into its account at another bank.

- A) direct send
- B) wire transfer
- C) depository transfer check
- D) preauthorized check

Answer: <https://biology-forums.com/index.php?topic=577554>

Question 1501

A market that establishes correct prices for the securities that firms sell and allocates funds to their most productive uses is called a(n) _____.

- A) future market
- B) forex market
- C) efficient market
- D) weak-form market

Answer: <https://biology-forums.com/index.php?topic=575386>

Question 1502

The repurchase of shares reduces the number of outstanding shares.

Answer: <https://biology-forums.com/index.php?topic=577176>

Question 1503

Which of the following is true of changes in cash discount period?

- A) If a firm decreases its cash discount period, the sales are expected to decrease, the bad debts are expected to increase, and the profit per unit is expected to increase.
- B) If a firm decreases its cash discount period, the sales are expected to increase, the bad debts are expected to increase, and the profit per unit is expected to decrease.
- C) If a firm increases its cash discount period, the sales are expected to decrease, the bad debts are expected to decrease, and the profit per unit is expected to increase.
- D) If a firm increases its cash discount period, the sales are expected to increase, the bad debts are expected to decrease, and the profit per unit is expected to increase.

Answer: <https://biology-forums.com/index.php?topic=577508>

Question 1504

Calculate the future value of \$6,490 received today and deposited for five years in an account which pays interest of 14 percent compounded semiannually.

Answer: <https://biology-forums.com/index.php?topic=575864>

Question 1505

_____ measures the percentage of profit earned on each sales dollar before interest and taxes but after all costs and expenses.

- A) Net profit margin
- B) Operating profit margin
- C) Gross profit margin
- D) Earnings available to common shareholders

Answer: <https://biology-forums.com/index.php?topic=575597>

Question 1506

Dottie has decided to set up an account that will pay her granddaughter (Lexi) \$5,000 a year indefinitely. How much should Dottie deposit in an account paying 8 percent annual interest?

Answer: <https://biology-forums.com/index.php?topic=575823>

Question 1507

The future value of \$100 received today and deposited at 6 percent for four years is _____.

- A) \$126
- B) \$ 79
- C) \$124
- D) \$116

Answer: <https://biology-forums.com/index.php?topic=575780>

Question 1508

With a floating-rate note, the interest rate on the note changes _____.

- A) when the risk level of the borrower changes
- B) when the prime rate changes
- C) when the demand for loans changes
- D) when bank profits changes

Answer: <https://biology-forums.com/index.php?topic=577679>

Question 1509

Target weights are either book value or market value weights based on a firm's desired capital structure proportions.

Answer: <https://biology-forums.com/index.php?topic=576647>

Question 1510

In cash budgeting, other cash receipts are cash receipts expected to result from sources other than sales.

Answer: <https://biology-forums.com/index.php?topic=575719>

Question 1511

A firm has directly placed an issue of commercial paper that has a maturity of 60 days. The issue sold for \$980,000 and has an annual interest rate of 12.24 percent. The value of the commercial paper at maturity is _____ (assume 360 days in a year).

- A) \$19,992
- B) \$980,000
- C) \$1,000,000
- D) \$960,008

Answer: <https://biology-forums.com/index.php?topic=577704>

Question 1512

An example of a standard debt provision is to _____.

- A) limit the corporation's annual cash dividend payments
- B) pay taxes and other liabilities when due
- C) restrict the corporation from disposing of fixed assets
- D) maintain a minimum level of liquidity

Answer: <https://biology-forums.com/index.php?topic=576026>

Question 1513

In using the cost of capital, it is important that it reflects the historical cost of raising funds over the long run.

Answer: <https://biology-forums.com/index.php?topic=576545>

Question 1514

Ratios provide a _____ measure of a company's performance and condition.

- A) definitive
- B) gross
- C) relative
- D) absolute

Answer: <https://biology-forums.com/index.php?topic=575525>

Question 1515

Economic theories that a financial manager must ensure for efficient business operations, include _____.

- A) supply-and-demand analysis
- B) asset pricing theory
- C) Porter's theory of five forces
- D) Monte Carlo simulation

Answer: <https://biology-forums.com/index.php?topic=575301>

Question 1516

If you expect the market to increase which of the following portfolios should you purchase?

- A) a portfolio with a beta of 1.9
- B) a portfolio with a beta of 1.0
- C) a portfolio with a beta of 0
- D) a portfolio with a beta of -0.5

Answer: <https://biology-forums.com/index.php?topic=576491>

Question 1517

The _____ ratio indicates the efficiency with which a firm uses its assets to generate sales.

- A) inventory turnover
- B) total asset turnover
- C) quick
- D) current asset turnover

Answer: <https://biology-forums.com/index.php?topic=575575>

Question 1518

When a call is made on a convertible security, the holder of the security will most likely _____.

- A) not take any action
- B) allow the call to be exercised and accept the call premium if the conversion value is 10% above the call price
- C) convert the security into common stock if the conversion value is 10% above the call price
- D) sell the security in the secondary market

Answer: <https://biology-forums.com/index.php?topic=577856>

Question 1519

The yield on commercial paper is generally higher than the yield on _____.

- A) preferred stock
- B) a corporate bond
- C) common stock
- D) a Treasury bill

Answer: <https://biology-forums.com/index.php?topic=577571>

Question 1520

A firm issued 10,000 shares of no par-value common stock, receiving proceeds of \$40 per share. The amount recorded is _____.

- A) \$0 in the Common Stock account
- B) \$0 in the Paid-in Capital in Excess of Par account
- C) \$400,000 in the Common Stock account

D) \$400,000 in the Paid-in Capital in Excess of Par account

Answer: <https://biology-forums.com/index.php?topic=576258>

Question 1521

Which of the following is a strength of payback period?

- A) a disregard for cash flows after the payback period
- B) only an implicit consideration of the timing of cash flows
- C) merely a subjectively determined number
- D) a measure of risk exposure

Answer: <https://biology-forums.com/index.php?topic=576733>

Question 1522

The payment of cash dividends to corporate stockholders is decided based on the recommendation of the auditors.

Answer: <https://biology-forums.com/index.php?topic=577174>

Question 1523

A form of divestiture in which an operating unit becomes an independent company by issuing shares in it on a pro rata basis to the parent company's shareholders is called _____.

- A) leveraged buyout
- B) employee stock option
- C) spin-off
- D) strategic takeover

Answer: <https://biology-forums.com/index.php?topic=578049>

Question 1524

A _____ is a measure of relative dispersion used in comparing the risk of assets with differing expected returns.

- A) coefficient of variation
- B) chi square
- C) mean
- D) standard deviation

Answer: <https://biology-forums.com/index.php?topic=576405>

Question 1525

Julian was given a gold coin originally purchased for \$1 by his great-grandfather 50 years ago. Today the coin is worth \$450. The rate of return realized on the sale of this coin is approximately equal to _____.

- A) 7.5%
- B) 13%
- C) 9%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=575887>

Question 1526

Dan plans to fund his individual retirement account (IRA) with the maximum contribution of \$2,000 at the end of each year for the next 10 years. If Dan can earn 10 percent on his contributions, how much will he have at the end of the tenth year?

- A) \$12,290
- B) \$20,000
- C) \$31,874
- D) \$51,880

Answer: <https://biology-forums.com/index.php?topic=575804>

Question 1527

The yield curve in an economic period where lower future inflation is expected would be _____.

- A) upward-sloping
- B) flat
- C) downward-sloping
- D) exponential

Answer: <https://biology-forums.com/index.php?topic=575990>

Question 1528

An ethics program is expected to have _____ impact on a firm's share price.

- A) a positive
- B) a negative
- C) no impact
- D) an unpredictable

Answer: <https://biology-forums.com/index.php?topic=575268>

Question 1529

Self-liquidating loans are intended merely to carry a firm through seasonal peaks in financing needs that are due primarily to buildups of accounts receivable and inventory.

Answer: <https://biology-forums.com/index.php?topic=577626>

Question 1530

The net effect of a stock repurchase is _____.

- A) similar to an interest payment
- B) similar to a cash dividend
- C) similar to a stock split
- D) similar to a reverse stock split

Answer: <https://biology-forums.com/index.php?topic=577193>

Question 1531

The weighted average cost of capital represents the annual before-tax percentage cost of the debt.

Answer: <https://biology-forums.com/index.php?topic=576568>

Question 1532

Exchange rate risk can often be hedged by using currency forward, futures, or options markets.

Answer: <https://biology-forums.com/index.php?topic=577696>

Question 1533

A downward-sloping yield curve that indicates generally cheaper long-term borrowing costs than short-term borrowing costs is called _____.

- A) normal yield curve
- B) inverted yield curve
- C) flat yield curve
- D) linear yield curve

Answer: <https://biology-forums.com/index.php?topic=575977>

Question 1534

Tangshan Mining is considering the acquisition of Zhengsen Mining at a cash price of \$6,000,000. The primary motivation for Tangshan's purchase of Zhengsen is for a special piece of drilling equipment that it believes will generate after-tax cash flows of \$2,000,000 per year during the next 5 years. Zhengsen Mining has liabilities of \$9,000,000 and Tangshan estimates that it can sell the remaining assets \$6,500,000. Tangshan will use a 15 percent cost of capital for evaluating the acquisition. Based on this information, what is the net value of the special drilling equipment? Calculate the net value of a second alternative that would allow Tangshan to purchase a better quality asset for \$12,000,000 that would provide a \$2,600,000 in after-tax inflows for the next 5 years. Which alternative would you choose?

- A) \$1,795,700, \$3,284,400, both
- B) \$1,500,000, \$4,500,000, both
- C) (\$1,795,700), (\$3,284,400), neither
- D) (\$1,795,700), (\$4,500,000), neither

Answer: <https://biology-forums.com/index.php?topic=578067>

Question 1535

As any investor can create a portfolio of assets that will eliminate all, or virtually all, nondiversifiable risk, the only relevant risk is diversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=576454>

Question 1536

In computing the cost of retained earnings, the net proceeds represents the amount of money retained net of any underpricing and/or flotation costs.

Answer: <https://biology-forums.com/index.php?topic=576598>

Question 1537

If a manager prefers a higher return investment regardless of its risk, then he is following a _____ strategy.

- A) risk-seeking
- B) risk-neutral
- C) risk-averse
- D) risk-aware

Answer: <https://biology-forums.com/index.php?topic=576369>

Question 1538

One of the major reasons for attaching a stock purchase warrant is that investors do not require the issuing firm to pay an interest rate as high as on a security that does not have an attached warrant.

Answer: <https://biology-forums.com/index.php?topic=577891>

Question 1539

A change in inflationary expectations resulting from events such as international trade embargoes or major changes in Federal Reserve policy will result in a shift in the SML.

Answer: <https://biology-forums.com/index.php?topic=576510>

Question 1540

Which of the following is true of cash flows and risk?

- A) Low cash flow and low risk result in an increase in share price.
- B) High cash flow and low risk result in an increase in share price.
- C) High cash flow and high risk result in an increase in share price.
- D) Lo cash flow and high risk result in an increase in share price.

Answer: <https://biology-forums.com/index.php?topic=575269>

Question 1541

Marginal analysis states that financial decisions should be made and actions should be taken only when _____.

- A) marginal revenue equals marginal cost
- B) benefits equal costs
- C) added benefits exceed added costs
- D) added benefits are greater than zero

Answer: <https://biology-forums.com/index.php?topic=575307>

Question 1542

Julie's Tanning Systems has an estimated liquidation value (after all prior claims have been satisfied) of \$3,000,000, \$1,500,000 from fixed assets, and \$1,500,000 from current assets. The firm's value as a going concern is \$4,000,000. The firm's current capital structure is as follows:

*Secured by fixed assets.

Prepare a table indicating the amount, if any, to be distributed to each claimant, in the event of liquidation.

Answer: <https://biology-forums.com/index.php?topic=578130>

Question 1543

Long-term debt instruments used by both government and business are known as _____.

- A) preferred stocks
- B) T-bills
- C) bonds
- D) equities

Answer: <https://biology-forums.com/index.php?topic=575391>

Question 1544

Controlled disbursing involves the strategic use of mailing points and bank accounts to lengthen mail float and clearing float, respectively.

Answer: <https://biology-forums.com/index.php?topic=577519>

Question 1545

The Gordon model assumes that the value of a share of stock equals the future value of the current price of share that it is expected to remain constant over an infinite time horizon.

Answer: <https://biology-forums.com/index.php?topic=576611>

Question 1546

A foreign bond is issued by a(n) _____.

- A) foreign corporation or government and is denominated in the investor's home currency and sold in the investor's home market

- B) corporation or government and is denominated in the investor's foreign currency and sold in the foreign market
C) international borrower and sold to investors in countries with currencies other than the local currency
D) international borrower and sold to investors in countries with currencies in which the bond is denominated

Answer: <https://biology-forums.com/index.php?topic=576094>

Question 1547

Interest paid to bondholders is tax deductible.

Answer: <https://biology-forums.com/index.php?topic=576165>

Question 1548

Historical weights are the present value of market price based on the actual historical capital structure proportions.

Answer: <https://biology-forums.com/index.php?topic=576646>

Question 1549

Since the payback period can be viewed as a measure of risk exposure, many firms use it as a supplement to other decision techniques.

Answer: <https://biology-forums.com/index.php?topic=576719>

Question 1550

The market value of common stock is completely unrelated to its par value.

Answer: <https://biology-forums.com/index.php?topic=576175>

Question 1551

The underlying cause of conflicts in ranking for projects by internal rate of return and net present value methods is _____.

- A) the reinvestment rate assumption regarding intermediate cash flows
B) that neither method explicitly considers the time value of money
C) the assumption made by the IRR method that cash inflows are spread equally throughout the timeline
D) that NPV approach favors small projects with high returns

Answer: <https://biology-forums.com/index.php?topic=576808>

Question 1552

3/10 net 45 EOM translates as _____.

- A) a 10 percent cash discount may be taken if paid in three days; if no cash discount is taken, the balance is due in 45 days
B) a 3 percent cash discount may be taken if paid in 10 days; if no cash discount is taken, the balance is due 45 days after transaction is complete
C) a 3 percent cash discount may be taken if paid in 10 days; if no cash discount is taken, the balance is due 45 days after the end of the month
D) a 3 percent discount may be taken on 10 percent of the purchase if the account is paid within 45 days after the end of the month

Answer: <https://biology-forums.com/index.php?topic=577601>

Question 1553

The shadow banking system describes a group of institutions that engage in lending activities, much like traditional banks.

Answer: <https://biology-forums.com/index.php?topic=575354>

Question 1554

The cash flows from financing activities section of the statement of cash flows includes _____.

- A) labour expense
B) cost of raw materials
C) purchase of long-term assets
D) dividends paid

Answer: <https://biology-forums.com/index.php?topic=575667>

Question 1555

A prospectus is another term for a firm's annual report showing the firm's prospects for the coming year.

Answer: <https://biology-forums.com/index.php?topic=576242>

Question 1556

A hybrid security is neither debt nor equity but instead derives its value from an underlying asset.

Answer: <https://biology-forums.com/index.php?topic=577759>

Question 1557

Champion Breweries must choose between two asset purchases. The annual rate of return and related probabilities given below summarize the firm's analysis.

For each asset, compute

- (a) the expected rate of return.
- (b) the standard deviation of the expected return.
- (c) the coefficient of variation of the return.
- (d) Which asset should Champion select?

Answer: <https://biology-forums.com/index.php?topic=576413>

Question 1558

The 2002 law that established the Public Company Accounting Oversight Board (PCAOB) was called _____.

- A) the McCain-Feingold Act
- B) the Harkins-Oxley Act
- C) the Sarbanes-Harkins Act
- D) the Sarbanes-Oxley Act

Answer: <https://biology-forums.com/index.php?topic=575470>

Question 1559

_____ are especially interested in the average payment period, since it provides them with a sense of the bill-paying patterns of the firm.

- A) Employees
- B) Stockholders
- C) Lenders and suppliers
- D) Auditors

Answer: <https://biology-forums.com/index.php?topic=575574>

Question 1560

Perfectly _____ correlated series move exactly together and have a correlation coefficient of _____, while perfectly _____ correlated series move exactly in opposite directions and have a correlation coefficient of _____.

- A) negatively; -1; positively; +1
- B) negatively; +1; positively; -1
- C) positively; -1; negatively; +1
- D) positively; +1; negatively; -1

Answer: <https://biology-forums.com/index.php?topic=576429>

Question 1561

Operating and financial constraints placed on a corporation by loan provision are _____.

- A) agency costs to lenders
- B) agency costs to a firm
- C) necessary to regulate ownership of a firm
- D) necessary to control the risk of a firm

Answer: <https://biology-forums.com/index.php?topic=577122>

Question 1562

A sophisticated capital budgeting technique that can be computed by subtracting a project's initial investment from the present value of its cash inflows discounted at a rate equal to a firm's cost of capital is called net present value.

Answer: <https://biology-forums.com/index.php?topic=576739>

Question 1563

The legal contract setting forth the terms and provisions of a corporate bond is a(n) _____.

- A) indenture
- B) debenture
- C) loan document
- D) promissory note

Answer: <https://biology-forums.com/index.php?topic=576013>

Question 1564

Tangshan Mining has 100,000 shares outstanding and just declared a 20% stock dividend. Before the announcement, the firm's shares were trading at \$50.00 per share. After the stock dividend, the firm's shares should trade at _____ per share.

- A) \$42.00
- B) \$41.67

C) \$46.33

D) \$50.00

Answer: <https://biology-forums.com/index.php?topic=577278>

Question 1565

The payback period of a project that costs \$1,000 initially and promises after-tax cash inflows of \$2,000 each year for the next three years is 0.5 years.

Answer: <https://biology-forums.com/index.php?topic=576713>

Question 1566

If an asset is sold for book value, the gain on the sale is composed of two parts: a capital gain and accumulated depreciation.

Answer: <https://biology-forums.com/index.php?topic=576853>

Question 1567

By concentrating on cash flows within a firm, the financial manager should be able to _____.

A) prepare tax returns

B) control the share price

C) avoid insolvency

D) maintain public relations

Answer: <https://biology-forums.com/index.php?topic=575306>

Question 1568

The _____ market is where securities are initially issued and the _____ market is where pre-owned securities (not new issues) are traded.

A) primary; secondary

B) money; capital

C) secondary; primary

D) primary; money

Answer: <https://biology-forums.com/index.php?topic=575366>

Question 1569

The two categories of ratios that should be utilized to assess a firm's true liquidity are the _____.

A) liquidity and market ratios

B) liquidity and profitability ratios

C) market and debt ratios

D) liquidity and activity ratios

Answer: <https://biology-forums.com/index.php?topic=575557>

Question 1570

On the balance sheet, net fixed assets represent _____.

A) gross fixed assets at cost minus depreciation expense

B) gross fixed assets at market value minus depreciation expense

C) gross fixed assets at cost minus accumulated depreciation

D) gross fixed assets at market value minus accumulated depreciation

Answer: <https://biology-forums.com/index.php?topic=575492>

Question 1571

The _____ ratio may indicate poor collections procedures or a relaxed credit policy.

A) average payment period

B) inventory turnover

C) average collection period

D) quick

Answer: <https://biology-forums.com/index.php?topic=575570>

Question 1572

The dominant organized options exchange is the _____.

A) over-the-counter exchange

B) CBOE

C) NASDAQ

D) NYSE

Answer: <https://biology-forums.com/index.php?topic=577930>

Question 1573

Which of the following is typically a feature of common stock?

- A) Most common stocks are callable.
- B) Most common stocks are cumulative.
- C) Common stocks have a maturity value.
- D) Common stocks may or may not pay dividends.

Answer: <https://biology-forums.com/index.php?topic=576210>

Question 1574

Shares of stock currently owned by a firm's shareholders are called _____.

- A) authorized shares
- B) issued shares
- C) outstanding shares
- D) treasury shares

Answer: <https://biology-forums.com/index.php?topic=576248>

Question 1575

Which of the following is the correct order in which corporations generally raise funds to enhance the wealth of stockholders and to send positive signals to the market?

- A) retained earnings, equity, debt
- B) retained earnings, debt, equity
- C) debt, retained earnings, equity
- D) equity, retained earnings, debt

Answer: <https://biology-forums.com/index.php?topic=577108>

Question 1576

A _____ is a method of structuring a financial merger, whereas a _____ involves the sale of the firm's assets.

- A) leveraged buyout; bankruptcy
- B) congeneric buyout; divestiture
- C) horizontal merger; leveraged divestiture
- D) leveraged buyout; divestiture

Answer: <https://biology-forums.com/index.php?topic=578035>

Question 1577

At the end of 2015, Long Life Light Bulb Corporation announced a gross profit of \$1 million. The company has also established that over the course of this year that it has incurred \$345,000 in operating expenses and \$125,000 in interest expenses. The company is subject to a 30% tax rate and has declared \$57,000 of total preferred stock dividends.

- (a) Calculate the earnings available for common stockholders?
- (b) Compute the increased retained earnings for 2015 if the company were to declare a \$4.25 common stock dividend. The company has 15,000 shares of common stock outstanding.

Answer: <https://biology-forums.com/index.php?topic=575502>

Question 1578

The long-run effect on the earnings per share of the merged firm depends largely on _____.

- A) the pre-merger P/E ratio
- B) the ratio of exchange
- C) the synergy of the merged firm
- D) the tax considerations

Answer: <https://biology-forums.com/index.php?topic=578079>

Question 1579

Which of the following is an example of agency costs?

- A) cost of labor
- B) raw material cost
- C) monitoring expenditures cost
- D) factory rent

Answer: <https://biology-forums.com/index.php?topic=575345>

Question 1580

A firm has an outstanding bond with a \$1,000 par value that is convertible into 50 shares of common stock. The bond's conversion price per share is _____.

- A) \$20
- B) \$25
- C) \$50
- D) \$100

Answer: <https://biology-forums.com/index.php?topic=577870>

Question 1581

All items on the right-hand side of a firm's balance sheet, excluding current liabilities are sources of capital.

Answer: <https://biology-forums.com/index.php?topic=577068>

Question 1582

Which of the following is the best measure of profit maximization goal?

- A) retained earnings
- B) risk of the investment
- C) earnings per share
- D) timing of the returns

Answer: <https://biology-forums.com/index.php?topic=575260>

Question 1583

A _____ option is an option to purchase a specified number of shares of a stock on or before some future date at a specified price, whereas a _____ option is an option to sell a specified number of shares of a stock on or before some future date at a specified price. _____ are purchased if the stock price is expected to fall.

- A) put; call; Puts
- B) call; put; Puts
- C) put; call; Calls
- D) call; put; Calls

Answer: <https://biology-forums.com/index.php?topic=577928>

Question 1584

At a firm's quarterly dividend meeting held April 9, the directors declared a \$0.50 per share cash dividend for the holders of record on Monday, May 1. The firm's stock will sell ex dividends on _____.

- A) April 28
- B) May 5
- C) April 29
- D) April 27

Answer: <https://biology-forums.com/index.php?topic=577186>

Question 1585

A firm has to pay a dividend of \$1.20 per share till perpetuity, a zero growth rate of dividends, and a required return of 10 percent. The value of the firm's preferred stock is _____.

- A) \$120
- B) \$10
- C) \$12
- D) \$100

Answer: <https://biology-forums.com/index.php?topic=576294>

Question 1586

Operating change restrictions are contractual restrictions that a bank may impose on a firm as part of a line of credit agreement.

Answer: <https://biology-forums.com/index.php?topic=577634>

Question 1587

Which of the following is true of credit scoring?

- A) It audits the amount of assets the applicant has available for use in securing the credit.
- B) It specifies the terms of sale for customers who have been extended credit by a firm.
- C) It is an ongoing review of a firm's accounts receivable to determine whether customers are paying according to the stated credit terms.

D) It applies statistically derived weights to an applicant's scores on key financial and credit characteristics.

Answer: <https://biology-forums.com/index.php?topic=577467>

Question 1588

_____ is the risk of being unable to cover financial obligations of a firm.

- A) Systematic risk
- B) Business risk
- C) Financial risk
- D) Diversifiable risk

Answer: <https://biology-forums.com/index.php?topic=577109>

Question 1589

When managing accounts payable, a good strategy would be to _____.

- A) pay as early as possible creating better credit rating for a firm
- B) pay as slowly as possible without damaging a firm's credit rating
- C) pay big customers early to maintain good relations and small customers on a later date
- D) pay only when a firm has adequate funds to meet its liabilities

Answer: <https://biology-forums.com/index.php?topic=577540>

Question 1590

The value of a firm measured as the sum of the values of its operating units if each were sold separately is known as a firm's part and parcel value.

Answer: <https://biology-forums.com/index.php?topic=578031>

Question 1591

The liquidity preference theory suggests that short-term interest rates should be lower than long-term interest rates.

Answer: <https://biology-forums.com/index.php?topic=575955>

Question 1592

The accept-reject approach involves the ranking of capital expenditure projects on the basis of some predetermined measure, such as the rate of return.

Answer: <https://biology-forums.com/index.php?topic=576682>

Question 1593

While operating leverage results only in a magnification of returns, financial leverage results only in a magnification of risk.

Answer: <https://biology-forums.com/index.php?topic=576964>

Question 1594

Net present value is considered a sophisticated capital budgeting technique since it gives explicit consideration to the time value of money.

Answer: <https://biology-forums.com/index.php?topic=576736>

Question 1595

Rita borrows \$4,500 from the bank at 9 percent annually compounded interest to be repaid in three equal annual installments. The interest paid in the third year is _____.

- A) \$277.95
- B) \$405.00
- C) \$352.00
- D) \$147.00

Answer: <https://biology-forums.com/index.php?topic=575905>

Question 1596

The purpose of a stock split is to _____.

- A) change a firm's capital structure
- B) decrease the dividend
- C) enhance the trading activity of the stock by lowering the market price
- D) increase the market price of a stock

Answer: <https://biology-forums.com/index.php?topic=577285>

Question 1597

Which of the following is one of the positive benefits of an effective ethics program?

- A) reduce potential litigation and judgment costs
- B) maintain and build competitor confidence
- C) gain the loyalty, commitment, and respect of the firm's competitors
- D) making sure violations are penalized, while at the same time not subjecting the employee to publicity

Answer: <https://biology-forums.com/index.php?topic=575278>

Question 1598

What is the payback period for Tangshan Mining company's new project if its initial after-tax cost is \$5,000,000 and it is expected to provide after-tax operating cash inflows of \$1,800,000 in year 1, \$1,900,000 in year 2, \$700,000 in year 3, and \$1,800,000 in year 4?

- A) 4.33 years
- B) 3.33 years
- C) 2.33 years
- D) 1.33 years

Answer: <https://biology-forums.com/index.php?topic=576728>

Question 1599

A relaxation of credit standards is expected to affect profits positively due to lower carrying costs, whereas tightening credit standards would affect profits negatively as a result of higher carrying costs.

Answer: <https://biology-forums.com/index.php?topic=577459>

Question 1600

The use of a large amount of debt to finance the acquisition of other firms is a _____.

- A) conglomerate merger
- B) leveraged buyout
- C) hostile merger
- D) congeneric buyout

Answer: <https://biology-forums.com/index.php?topic=578033>

Question 1601

Zheng Sen's Pen Company has an outstanding issue of convertible bonds with a \$1,000 par value. These bonds are convertible into 50 shares of common stock. They have a 10 percent coupon and a 10-year maturity. The interest rate on a straight bond of similar risk is 8 percent.

- (a) Calculate the straight bond value of the bond.
- (b) Calculate the conversion value of the bond when the market price of the stock is \$30/share.
- (c) What is the least you would expect the bond to sell for at a market price of common stock of \$18/share?

Answer: <https://biology-forums.com/index.php?topic=577883>

Question 1602

A firm has projected sales in May, June, and July of \$100, \$200, and \$300, respectively. The firm makes 20 percent of sales for cash and collects the balance one month following the sale. The firm's total cash receipts in July is _____.

- A) \$220
- B) \$200
- C) \$180
- D) \$140

Answer: <https://biology-forums.com/index.php?topic=575732>

Question 1603

Tangshan Mining borrowed \$100,000 for one year under a line of credit with a stated interest rate of 7.5 percent and a 15 percent compensating balance. Normally, the firm keeps a balance of about \$10,000 in its checking account. Based on this information, the effective annual interest rate on the loan is _____.

- A) 7.89%
- B) 8.05%
- C) 8.89%
- D) 7.29%

Answer: <https://biology-forums.com/index.php?topic=577685>

Question 1604

An efficient portfolio is defined as _____.

- A) grouping of assets with same level of risk
- B) collection of assets with the aim of maximizing the return

C) an investment in a single asset
D) grouping of assets with the highest possible correlation
Answer: <https://biology-forums.com/index.php?topic=576423>

Question 1605

Which of the following is true of the accept-reject approach?
A) It involves ranking projects on the basis of some predetermined measure, such as the rate of return.
B) It cannot be used when the firm has limited funds.
C) It can be used for making capital budgeting decisions when there is capital rationing.
D) It can be used only for evaluating mutually exclusive projects.
Answer: <https://biology-forums.com/index.php?topic=576700>

Question 1606

The _____ of a firm is the amount of time that elapses from the point when the firm inputs material and labor into the production process to the point when cash is collected from the sale of the finished product that contains these production inputs.
A) cash conversion cycle
B) average age of inventory
C) operating cycle
D) average collection period
Answer: <https://biology-forums.com/index.php?topic=577347>

Question 1607

Emmy Lou, Inc. has an expected dividend next year of \$5.60 per share, a growth rate of dividends of 10 percent, and a required return of 20 percent. The value of a share of Emmy Lou, Inc.'s common stock is _____.
A) \$28.00
B) \$56.00
C) \$22.40
D) \$18.67
Answer: <https://biology-forums.com/index.php?topic=576298>

Question 1608

The cost of preferred stock is _____.
A) lower than the cost of long-term debt.
B) higher than the cost of common stock.
C) higher than the cost of long-term debt and lower than the cost of common stock.
D) lower than the cost of convertible long-term debt and higher than the cost of common stock.
Answer: <https://biology-forums.com/index.php?topic=576217>

Question 1609

If a firm has overdue liabilities or is legally insolvent or bankrupt, most states prohibit its payment of cash dividends.
Answer: <https://biology-forums.com/index.php?topic=577227>

Question 1610

Lines of credit are guaranteed loans that specify the maximum amount that a firm can owe the bank at any point in time.
Answer: <https://biology-forums.com/index.php?topic=577650>

Question 1611

Operating leverage measures the effect of fixed operating costs on the relationship between _____.
A) sales and EBIT
B) sales and EPS
C) EBIT and EPS
D) EBIT and dividend
Answer: <https://biology-forums.com/index.php?topic=577042>

Question 1612

_____ are established to evaluate a customer's creditworthiness and to determine the minimum requirements for extending credit to a customer.
A) Lines of credit
B) Credit limits
C) Collection agencies

D) Credit standards

Answer: <https://biology-forums.com/index.php?topic=577466>

Question 1613

A sunk cost is a cash outlay that has already been made and cannot be recovered.

Answer: <https://biology-forums.com/index.php?topic=576823>

Question 1614

In defending against a hostile takeover, the strategy that involves the target firm creating securities that give their holders certain rights that become effective when a takeover is attempted is called the _____ strategy.

- A) shark repellent
- B) greenmail
- C) poison pill
- D) golden parachute

Answer: <https://biology-forums.com/index.php?topic=578102>

Question 1615

The constant-growth valuation model is based on the premise that the value of a share of common stock is _____.

- A) the sum of the dividends and expected capital appreciation
- B) determined based on an industry standard P/E multiple
- C) determined by using a measure of relative risk called correlation coefficient
- D) equal to the present value of all expected future dividends

Answer: <https://biology-forums.com/index.php?topic=576620>

Question 1616

The _____ ratios are primarily used as measures of return.

- A) liquidity
- B) activity
- C) debt
- D) profitability

Answer: <https://biology-forums.com/index.php?topic=575541>

Question 1617

The basic difficulty in applying the capital budgeting approach to an acquisition of a going concern is the estimation of initial cash flows and certain risk consideration.

Answer: <https://biology-forums.com/index.php?topic=578051>

Question 1618

In the case of annuity cash inflows, the payback period can be found by dividing the initial investment by the annual cash inflow.

Answer: <https://biology-forums.com/index.php?topic=576704>

Question 1619

_____ is an international body that polices world commercial trading practices and mediates disputes among two or more member countries.

- A) NAFTA
- B) GATT
- C) WTO
- D) CAFTA

Answer: <https://biology-forums.com/index.php?topic=578173>

Question 1620

An attractive candidate for acquisition through a leveraged buyout should _____.

- A) possess a relatively high leverage
- B) have a solid profit history
- C) have a high level of provision for doubtful accounts
- D) have a low level of investment in fixed assets

Answer: <https://biology-forums.com/index.php?topic=578040>

Question 1621

Purchase options are provisions frequently included in both operating and financial leases that allow the lessee to purchase the leased asset at

maturity.

Answer: <https://biology-forums.com/index.php?topic=577779>

Question 1622

An external sales forecast is based on _____.

- A) the relationships between a firm's sales and certain key economic indicators such as GDP and consumer confidence
- B) a buildup, or consensus of sales forecasts through a firm's own sales channels
- C) the prediction of a firm's sales over a given period through the analysis of the sales trends of its competitors.
- D) developing the pro forma income statement to forecast sales and then express the various income statement items as percentage of projected sales

Answer: <https://biology-forums.com/index.php?topic=575728>

Question 1623

In the most basic sense, risk is a measure of the uncertainty surrounding the return that an investment will earn.

Answer: <https://biology-forums.com/index.php?topic=576359>

Question 1624

Learning Obj.: LG 4

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

5) A creditor in possession in a Chapter 12 bankruptcy proceeding is responsible for valuing a firm both in terms of its liquidation value and as a going concern.

Answer: <https://biology-forums.com/index.php?topic=578136>

Question 1625

A congeneric merger is a merger in which a firm acquires a supplier or a customer.

Answer: <https://biology-forums.com/index.php?topic=577976>

Question 1626

A firm is evaluating two independent projects utilizing the internal rate of return technique. Project X has an initial investment of \$80,000 and cash inflows at the end of each of the next five years of \$25,000. Project Z has an initial investment of \$120,000 and cash inflows at the end of each of the next four years of \$40,000. The firm should _____.

- A) accept both the projects because they have equal IRR
- B) accept Project Y because its IRR is higher than Project Z
- C) accept Project Z because its IRR is higher than Project X
- D) reject both the projects because they have negative IRR

Answer: <https://biology-forums.com/index.php?topic=576803>

Question 1627

The payback period is generally viewed as an unsophisticated capital budgeting technique, because it does not explicitly consider the time value of money by discounting cash flows to find present value.

Answer: <https://biology-forums.com/index.php?topic=576714>

Question 1628

Due to growing demand for computer software, the Shine Company has had a very successful year and expects its earnings per share to grow by 25 percent to reach \$5.50 for this year. Estimate the price of the company's common stock assuming the industry's price/earning ratio is 12.

Answer: <https://biology-forums.com/index.php?topic=576338>

Question 1629

The effect of financial leverage is such that an increase in a firm's earnings before interest and taxes (EBIT) results in a more than proportional increase in the firm's earnings per share (EPS), while a decrease in the firm's EBIT results in a less than proportional decrease in EPS.

Answer: <https://biology-forums.com/index.php?topic=577025>

Question 1630

The risk-adjusted discount rate can be computed as the risk free rate plus the product of a project's beta and the credit risk premium.

Answer: <https://biology-forums.com/index.php?topic=576922>

Question 1631

Which of the following is true of credit scoring of suppliers?

- A) It is frequently used in business because the scoring information is easy to obtain.
- B) It is frequently used in business because scoring standards are too flexible.
- C) It is frequently not used in business because most business transactions involve mercantile credit which cannot be scored.
- D) It is frequently used in business because mercantile credit decisions are easily quantifiable.

Answer: <https://biology-forums.com/index.php?topic=577474>

Question 1632

An efficient market is a market that establishes correct prices for the securities that firms sell and allocates funds to their most productive use as a result of the intense competition among investors.

Answer: <https://biology-forums.com/index.php?topic=575373>

Question 1633

The cost of common stock equity capital represents the return required by existing shareholders on their investment.

Answer: <https://biology-forums.com/index.php?topic=577695>

Question 1634

The cost of giving up a cash discount under the terms of sale 5/20 net 120 (assume a 360-day year) is _____.

- A) 15 percent
- B) 18.9 percent
- C) 15.8 percent
- D) 20 percent

Answer: <https://biology-forums.com/index.php?topic=577614>

Question 1635

As a result of the Maastricht Treaty of 1991, 12 EU nations adopted a single currency, the euro, as a continent-wide medium of exchange.

Answer: <https://biology-forums.com/index.php?topic=578161>

Question 1636

When discussing weighing schemes for calculating the weighted average cost of capital, _____.

- A) market value weights are preferred over book value weights and target weights are preferred over historical weights
- B) book value weights are preferred over market value weights and target weights are preferred over historical weights
- C) book value weights are preferred over market value weights and historical weights are preferred over target weights
- D) market value weights are preferred over book value weights and historical weights are preferred over target weights

Answer: <https://biology-forums.com/index.php?topic=576654>

Question 1637

For a risk-averse manager, required return would decrease for an increase in risk.

Answer: <https://biology-forums.com/index.php?topic=576352>

Question 1638

A merger transaction endorsed by a target firm's management, approved by its stockholders, and easily consummated is called a friendly merger.

Answer: <https://biology-forums.com/index.php?topic=577951>

Question 1639

Calculate the future value of \$10,000 received today and deposited for six years in an account which pays interest of 12 percent compounded quarterly.

Answer: <https://biology-forums.com/index.php?topic=575865>

Question 1640

American Depositary Receipts (ADRs) are claims issued by U.S. banks representing ownership of shares of a foreign company's stock held on deposit by the U.S. bank in the foreign market and issued in dollars to U.S. investors.

Answer: <https://biology-forums.com/index.php?topic=576241>

Question 1641

As the ratio of current assets to total assets increases, a firm's risk increases.

Answer: <https://biology-forums.com/index.php?topic=577302>

Question 1642

A combination of companies where the former corporations cease to exist is _____.

- A) a congeneric formation
- B) a consolidation
- C) a merger
- D) a holding company

Answer: <https://biology-forums.com/index.php?topic=577981>

Question 1643

Which of the following is true of a horizontal merger?

- A) The key benefit of this merger stems from the merged firm's increased control over the acquisition of raw materials or the distribution of finished goods.
- B) The key benefit of this form of merger is its ability to reduce risk by merging firms that have different patterns of sales and earnings.
- C) This form of merger results when two firms in the same line of business are merged.
- D) This form of merger occurs when a firm acquires a supplier or a customer.

Answer: <https://biology-forums.com/index.php?topic=578007>

Question 1644

A firm has fixed operating costs of \$10,000, the sale price per unit of its product is \$25, and its variable cost per unit is \$15. The firm's operating breakeven point in units is _____ and its breakeven point in dollars is _____.

- A) 1,000; \$6,250
- B) 400; \$10,000
- C) 400; \$25,000
- D) 1,000; \$25,000

Answer: <https://biology-forums.com/index.php?topic=577004>

Question 1645

If the NPV is greater than \$0, a project should be accepted.

Answer: <https://biology-forums.com/index.php?topic=576746>

Question 1646

The cost of giving up a cash discount under the terms of sale 1/10 net 60 (assume a 360-day year) is _____.

- A) 7.3 percent
- B) 6.1 percent
- C) 14.7 percent
- D) 12.2 percent

Answer: <https://biology-forums.com/index.php?topic=577613>

Question 1647

The payback period is the amount of time required for a firm to dispose a replaced asset.

Answer: <https://biology-forums.com/index.php?topic=576705>

Question 1648

Which of the following is a current liability?

- A) accounts receivable
- B) cash
- C) notes payable
- D) inventory

Answer: <https://biology-forums.com/index.php?topic=575481>

Question 1649

A firm's credit terms cover _____.

- A) credit standards
- B) lines of credit
- C) cash discount period
- D) credit scoring

Answer: <https://biology-forums.com/index.php?topic=577496>

Question 1650

Non-cash charges are expenses that involve an actual outlay of cash during the period but are not deducted on the income statement.

Answer: <https://biology-forums.com/index.php?topic=575626>

Question 1651

Jia Hua Enterprises wants to issue sixty 20-year, \$1,000 par value, zero-coupon bonds. If each bond is priced to yield 7 percent, how much will Jia Hua receive (ignoring issuance costs) when the bonds are first sold?

- A) \$11,212
- B) \$12,393
- C) \$15,505
- D) \$18,880

Answer: <https://biology-forums.com/index.php?topic=576131>

Question 1652

Holders of equity capital _____.

- A) own the firm
- B) receive interest payments
- C) receive guaranteed income
- D) have loaned money to the firm

Answer: <https://biology-forums.com/index.php?topic=576169>

Question 1653

On a purely theoretical basis, NPV is the better approach to capital budgeting than IRR because NPV implicitly assumes that any intermediate cash inflows generated by an investment are reinvested at the firm's cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576789>

Question 1654

An important cash inflow in the analysis of initial cash flows for a replacement project is _____.

- A) taxes
- B) the cost of the new asset
- C) installation cost
- D) the sale value of the old asset

Answer: <https://biology-forums.com/index.php?topic=576839>

Question 1655

Dividend payments change directly with changes in earnings per share.

Answer: <https://biology-forums.com/index.php?topic=575246>

Question 1656

The before-tax cost of debt for a firm, which has a marginal tax rate of 40 percent, is 12 percent. The after-tax cost of debt is _____.

- A) 4.8 percent
- B) 6.0 percent
- C) 7.2 percent
- D) 12 percent

Answer: <https://biology-forums.com/index.php?topic=576573>

Question 1657

If a firm's sales are constant, its investment in operating assets should also be constant, and the firm will have only a permanent funding requirement.

Answer: <https://biology-forums.com/index.php?topic=577334>

Question 1658

Retained earnings represent the cumulative total of all earnings, net of dividends, that have been retained and reinvested in the firm since its inception.

Answer: <https://biology-forums.com/index.php?topic=575455>

Question 1659

Evaluate the following projects using the payback method assuming a rule of 3 years for payback.

Year Project A Project B

- 0 -10,000 -10,000
- 1 4,000 4,000
- 2 4,000 3,000
- 3 4,000 2,000
- 4 0 1,000,000

- A) Project A can be accepted because the payback period is 2.5 years but Project B cannot be accepted because its payback period is longer than 3 years.
- B) Project B should be accepted because even though the payback period is 2.5 years for Project A and 3.001 for project B, there is a \$1,000,000 payoff in the 4th year in Project B.
- C) Project B should be accepted because you get more money paid back in the long run.
- D) Both projects can be accepted because the payback is less than 3 years.

Answer: <https://biology-forums.com/index.php?topic=576731>

Question 1660

Which of the following is true of a common stock?

- A) It gives voting rights which permit determination of the amount of dividend receivable.
- B) It gives claims on income and assets which are superior to the claims of creditors of the firm.
- C) Dividends on common stock are fully tax-deductible.
- D) There is no fixed dividend payment obligation for the company.

Answer: <https://biology-forums.com/index.php?topic=576260>

Question 1661

_____ is the amount earned on a deposit that has become the part of the principal at the end of a specified time period.

- A) Discount interest
- B) Compound interest
- C) Primary interest
- D) Future value

Answer: <https://biology-forums.com/index.php?topic=575779>

Question 1662

The statement of cash flows allows the financial manager and other interested parties to analyze a firm's past and possibly future profitability.

Answer: <https://biology-forums.com/index.php?topic=575654>

Question 1663

Which of the following is true of net working capital?

- A) When current assets of a firm exceed its current liabilities, a firm is said to have negative net working capital.
- B) When current assets of a firm are less than its total assets, a firm is said to have positive net working capital.
- C) When current assets of a firm exceed its current liabilities, a firm is said to have positive net working capital.
- D) When current assets of a firm exceed its total assets, the firm is said to have negative net working capital.

Answer: <https://biology-forums.com/index.php?topic=577310>

Question 1664

A(n) _____ is useful in evaluating credit policies.

- A) average payment period
- B) current ratio
- C) average collection period
- D) inventory turnover ratio

Answer: <https://biology-forums.com/index.php?topic=575568>

Question 1665

If a firm's fixed financial costs decrease, the firm's operating breakeven point will _____.

- A) decrease
- B) increase
- C) remain unchanged
- D) change based on the sale price per unit

Answer: <https://biology-forums.com/index.php?topic=576998>

Question 1666

The change in net working capital—regardless of whether an increase or decrease—is not taxable because it merely involves a net buildup or net reduction of current accounts.

Answer: <https://biology-forums.com/index.php?topic=576834>

Question 1667

Most managers are risk-averse, since for a given increase in risk they require an increase in return.

Answer: <https://biology-forums.com/index.php?topic=576354>

Question 1668

Find the present value of the following stream of a firm's cash flows, assuming that the firm's opportunity cost is 25 percent.

- A) \$27,168
- B) \$35,200
- C) \$34,074
- D) \$32,281

Answer: <https://biology-forums.com/index.php?topic=575840>

Question 1669

The relative inexpensiveness of debt capital is due to the fact that the lenders take the least risk among the long-term contributors of capital.

Answer: <https://biology-forums.com/index.php?topic=577065>

Question 1670

A debt instrument indicating that a corporation has borrowed a certain amount of money and promises to repay it in the future under clearly defined terms is called a(n) _____.

- A) common stock
- B) corporate bond
- C) indenture
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=576014>

Question 1671

Bonds which sell at less than face value are priced at a _____, while bonds which sell at greater than face value sell at a _____.

- A) par; premium
- B) discount; par
- C) discount; premium
- D) coupon; premium

Answer: <https://biology-forums.com/index.php?topic=576134>

Question 1672

An increment above the prime rate on a floating-rate loan will be higher than on a fixed-rate loan of equivalent risk because the lender bears higher risk with a floating-rate loan.

Answer: <https://biology-forums.com/index.php?topic=577642>

Question 1673

The straight bond value is _____.

- A) the conversion premium minus the conversion value
- B) the present value of the interest and principal payments discounted at a rate the firm would have to pay on a convertible bond
- C) the market value minus the conversion value
- D) the present value of the interest and principal payments discounted at a rate the firm would have to pay on a nonconvertible bond

Answer: <https://biology-forums.com/index.php?topic=577866>

Question 1674

Tangshan Mining has 100,000 shares outstanding and just declared a 2-for-1 stock split. Before the announcement, the firm's shares were trading at \$50.00 per share. After the stock split, the firm's shares should trade at _____ per share.

- A) \$100.00
- B) \$25.00
- C) \$50.00
- D) \$75.00

Answer: <https://biology-forums.com/index.php?topic=577289>

Question 1675

The beta of the portfolio in Table 8.2 indicates this portfolio _____.

- A) has more risk than the market
- B) has less risk than the market
- C) has an unrelated amount of risk compared to the market
- D) has the same risk as the market

Answer: <https://biology-forums.com/index.php?topic=576488>

Question 1676

If a firm has class A and class B common stock outstanding, it means that _____.

- A) each class receives a different dividend
- B) the par value of each class is different
- C) the dividend paid to one of the classes is tax deductible by the corporation
- D) one of the classes is probably nonvoting stock

Answer: <https://biology-forums.com/index.php?topic=576249>

Question 1677

A _____ allows a firm to force conversion.

- A) warrant
- B) option
- C) call feature
- D) striking price

Answer: <https://biology-forums.com/index.php?topic=577845>

Question 1678

Under which of the following legal forms of organization is ownership readily transferable?

- A) sole proprietorships
- B) partnerships
- C) limited partnerships
- D) corporations

Answer: <https://biology-forums.com/index.php?topic=575235>

Question 1679

In the capital asset pricing model, an increase in inflationary expectations will be reflected by _____.

- A) no effect on security market line
- B) a decrease in the slope of the security market line
- C) a parallel shift downward in the security market line
- D) a parallel shift upward in the security market line

Answer: <https://biology-forums.com/index.php?topic=576524>

Question 1680

A corporation is selling an existing asset for \$1,700. The asset, when purchased, cost \$10,000, was being depreciated under MACRS using a five-year recovery period, and has been depreciated for four full years. If the assumed tax rate is 40 percent on ordinary income and capital gains, the tax effect of this transaction is _____.

- A) \$0 tax liability
- B) \$840 tax liability
- C) \$3,160 tax liability
- D) \$3,160 tax benefit

Answer: <https://biology-forums.com/index.php?topic=576863>

Question 1681

Information on the accounting policies, procedures, calculations, and transactions underlying entries in the financial statements can be found on _____.

- A) the notes to the financial statements
- B) the statement of retained earnings
- C) the proxy statement
- D) the management discussion and analysis(MD&A)

Answer: <https://biology-forums.com/index.php?topic=575500>

Question 1682

If net present value of a project is greater than zero, the firm will earn a return greater than its cost of capital. The acceptance of such a project would enhance the wealth of the firm's owners.

Answer: <https://biology-forums.com/index.php?topic=576743>

Question 1683

A(n) _____ is a pro rata cash settlement of creditor claims.

- A) composition
- B) creditor control agreement
- C) extension
- D) liquidation

Answer: <https://biology-forums.com/index.php?topic=578124>

Question 1684

The MACRS depreciation method requires use of the half-year convention. Assets are assumed to be acquired in the middle of the year and only one-half of the first year's depreciation is recovered in the first year.

Answer: <https://biology-forums.com/index.php?topic=575631>

Question 1685

Aunt Tilly's Feeds, Inc. is considering obtaining funding through advances against receivables. Total annual credit sales are \$600,000, terms are net 30 days, and payment is made on an average of 30 days. Western National Bank will advance funds under a pledging arrangement for 13 percent annual interest. On average, 75 percent of credit sales will be accepted as collateral. Commodity Finance offers factoring on a nonrecourse basis for a 1 percent factoring commission, charging 1.5 percent per month on advances and requiring a 15 percent factor's reserve. Under this plan, the firm would factor all accounts and close its credit and collections department, saving \$10,000 per year.

- (a) What is the effective interest rate and the average amount of funds available under pledging and under factoring?
- (b) Which plan do you recommend? Why?

Answer: <https://biology-forums.com/index.php?topic=577744>

Question 1686

_____ have a short maturities, typically one to five years, and which can be renewed for a similar period at the option of their holders.

- A) Floating rate bonds
- B) Extendible notes
- C) Putable bonds
- D) Junk bonds

Answer: <https://biology-forums.com/index.php?topic=576085>

Question 1687

If a firm increases its cash discount period, the firm's investment in accounts receivable due to discount takers still getting cash discounts but paying later is expected to increase.

Answer: <https://biology-forums.com/index.php?topic=577488>

Question 1688

Which of the following is usually a right of a preferred stockholder?

- A) right to convert shares to common stock on demand
- B) preemptive right to participate in the issuance of new common shares
- C) right to receive dividend payments before any dividends are paid to common stockholders
- D) right to sue company in bankruptcy proceedings if promised preferred dividends are not paid

Answer: <https://biology-forums.com/index.php?topic=576224>

Question 1689

Preemptive rights allow common stockholders to maintain their proportionate ownership in the corporation when new issues are made.

Answer: <https://biology-forums.com/index.php?topic=576229>

Question 1690

Other factors remaining constant, an increase in the average payment period will result in _____.

- A) a decrease in the average collection period
- B) a decrease in the cash conversion cycle
- C) an increase in the cash conversion cycle
- D) an increase in the average collection period

Answer: <https://biology-forums.com/index.php?topic=577364>

Question 1691

If a project's IRR is greater than 0 percent, the project should be accepted.

Answer: <https://biology-forums.com/index.php?topic=576768>

Question 1692

The _____ is a weighted average of the cost of funds which reflects the interrelationship of financing decisions.

- A) internal rate of return
- B) sunk cost
- C) cost of capital
- D) risk-free rate

Answer: <https://biology-forums.com/index.php?topic=576550>

Question 1693

Operating leverage is present when a firm has fixed operating costs.

Answer: <https://biology-forums.com/index.php?topic=577019>

Question 1694

Financial leverage may be defined as the potential use of variable financial costs to magnify the effects of changes in earnings before interest and taxes (EBIT) on a firm's earnings per share (EPS).

Answer: <https://biology-forums.com/index.php?topic=577028>

Question 1695

_____ costs require the payment of a specified amount in each accounting period.

- A) Operating
- B) Variable
- C) Semi-variable
- D) Fixed

Answer: <https://biology-forums.com/index.php?topic=576992>

Question 1696

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ less total leverage than an otherwise equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577097>

Question 1697

In capital budgeting, risk refers to _____.

- A) the degree of variability of the cash inflows
- B) the degree of variability of the initial investment
- C) the chance that the net present value will be greater than zero
- D) the chance that the internal rate of return will exceed the cost of capital

Answer: <https://biology-forums.com/index.php?topic=576899>

Question 1698

The cost of common stock equity may be estimated by using the _____.

- A) yield curve
- B) break-even analysis
- C) Gordon model
- D) DuPont analysis

Answer: <https://biology-forums.com/index.php?topic=576616>

Question 1699

A firm has the balance sheet accounts, Common Stock and Paid-in Capital in Excess of Par, with values of \$10,000 and \$250,000, respectively. The firm has 10,000 common shares outstanding. If the firm had a par value of \$1, the stock originally sold for _____.

- A) \$24/share
- B) \$25/share
- C) \$26/share
- D) \$30/share

Answer: <https://biology-forums.com/index.php?topic=576263>

Question 1700

In general, with an amortized loan, the payment amount remains constant over the life of the loan, the principal portion of each payment declines over the life of the loan, and the interest portion of each payment grows over the life of the loan.

Answer: <https://biology-forums.com/index.php?topic=575870>

Question 1701

A sophisticated capital budgeting technique that can be computed by solving for the discount rate that equates the present value of a project's inflows to the present value of its outflows is called net present value.

Answer: <https://biology-forums.com/index.php?topic=576765>

Question 1702

For tax purposes, using MACRS recovery periods, assets in the first four property classes are depreciated by the double-declining balance method using the half-year convention and switching to straight line when advantageous.

Answer: <https://biology-forums.com/index.php?topic=575630>

Question 1703

In a(n) _____ a lessor owns or acquires the assets that are leased to a given lessee.

- A) operating lease
- B) financial lease
- C) sale-leaseback arrangement
- D) direct lease

Answer: <https://biology-forums.com/index.php?topic=577802>

Question 1704

Short-term loans that businesses obtain from banks and through commercial paper are _____.

- A) negotiated and secured
- B) negotiated and unsecured
- C) spontaneous and secured
- D) spontaneous and unsecured

Answer: <https://biology-forums.com/index.php?topic=577659>

Question 1705

LBOs are an example of a financial merger undertaken to create a high-debt private corporation with improved cash flow and value.

Answer: <https://biology-forums.com/index.php?topic=578015>

Question 1706

Which of the following is true of the impact of cash flows on net working capital?

- A) The higher the cash inflows lower is the net working capital.
- B) The lower the cash outflows lower is the net working capital.
- C) The more predictable the cash inflows of a firm, the more current assets a firm needs.
- D) The more predictable the cash inflows of a firm, the easier is the working capital management.

Answer: <https://biology-forums.com/index.php?topic=577318>

Question 1707

Financial risk is the risk to a firm of being unable to cover operating costs.

Answer: <https://biology-forums.com/index.php?topic=577076>

Question 1708

When common stock is repurchased and retired, the underlying motive is to _____.

- A) delay taxes
- B) boost the stock's dividends
- C) distribute the excess cash to the owners
- D) reduce the retained earnings balance

Answer: <https://biology-forums.com/index.php?topic=577184>

Question 1709

Which of the following is true of benchmarking?

- A) It is an analysis in which a firm's ratio values are analyzed to project the fundamental values of the assets for upcoming years or business cycle.
- B) It is an analysis in which a firm's ratio values are compared with those of a key competitor or with a group of competitors that it wishes to emulate.
- C) It is an analysis in which a firm's financial performance over time is evaluated using financial ratio analysis.

D) It is a financial statement analysis technique which combines cross-sectional and time-series analyses.

Answer: <https://biology-forums.com/index.php?topic=575531>

Question 1710

When a portion of a firm's fixed assets are financed with current liabilities, _____.

- A) the firm will have positive net working capital
- B) the net working capital will decrease
- C) the current ratio will increase
- D) the firm will have negative net working capital

Answer: <https://biology-forums.com/index.php?topic=577317>

Question 1711

What is the approximate yield to maturity for a \$1,000 par value bond selling for \$1,120 that matures in 6 years and pays 12 percent interest annually?

- A) 8.5 percent
- B) 9.3 percent
- C) 12.0 percent
- D) 13.2 percent

Answer: <https://biology-forums.com/index.php?topic=576156>

Question 1712

Entertainer's Aid plans five annual colossal concerts, each in a different nation's capital. The concerts will raise funds for an endowment which would provide the World Wide Hunger Fund with \$3,000,000 per year into perpetuity. The endowment will be given at the end of the fifth year. The rate of interest is expected to be 9 percent in all future periods. How much must Entertainer's Aid deposit each year to accumulate to the required amount?

- A) \$5,569,749
- B) \$3,333,333
- C) \$1,830,275
- D) \$8,568,980

Answer: <https://biology-forums.com/index.php?topic=575907>

Question 1713

A firm's credit standard is a procedure for ranking an applicant's overall credit strength, derived as a weighted average of scores on key financial and credit characteristics.

Answer: <https://biology-forums.com/index.php?topic=577454>

Question 1714

When computing the number of deposits needed to accumulate to a future sum, it will take longer if the interest rate decreases, holding the future value and deposit size constant.

Answer: <https://biology-forums.com/index.php?topic=575876>

Question 1715

The dividend policy must be formulated considering two basic objectives, namely _____.

- A) delaying the tax liability of the stockholder and information content
- B) maximizing shareholder wealth and maintaining liquidity
- C) maximizing shareholder wealth and providing for sufficient financing
- D) maintaining liquidity and minimizing the weighted average cost of capital

Answer: <https://biology-forums.com/index.php?topic=577252>

Question 1716

The aggressive financing strategy is risky in two aspects: a firm operates with a possibility of _____, and a firm has only a limited amount of _____ capacity.

- A) insolvency; short-term borrowing
- B) interest rate swings; short-term borrowing
- C) low earnings; long-term borrowing
- D) fixed interest rate; long-term borrowing

Answer: <https://biology-forums.com/index.php?topic=577387>

Question 1717

The importance and widespread use of transfer pricing in international trade makes capital budgeting in MNCs very difficult unless the transfer prices that are used accurately reflect actual costs and incremental cash flows.

Answer: <https://biology-forums.com/index.php?topic=576907>

Question 1718

A nonconventional cash flow pattern associated with capital investment projects consists of an initial _____.

- A) outflow followed by a series of both cash inflows and outflows
- B) inflow followed by a series of both cash inflows and outflows
- C) outflow followed by a series of inflows
- D) inflow followed by a series of outflows

Answer: <https://biology-forums.com/index.php?topic=576702>

Question 1719

Earnings available for common stockholders is calculated as net profits _____.

- A) before taxes minus preferred dividends
- B) after taxes minus preferred dividends
- C) after taxes minus common dividends
- D) before taxes minus common dividends

Answer: <https://biology-forums.com/index.php?topic=575480>

Question 1720

The net proceeds used in calculation of the cost of long-term debt are funds actually received from the sale after paying for flotation costs and taxes.

Answer: <https://biology-forums.com/index.php?topic=576563>

Question 1721

A sophisticated capital budgeting technique that can be computed by solving for the discount rate that equates the present value of a project's inflows to the present value of its outflows is called internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=576766>

Question 1722

A firm's annual stockholders' report _____.

- A) is only accessible to the shareholders of the firm
- B) summarizes and documents the firm's financial activities during the past year
- C) documents the list of all investors who bought the firm's shares during the past year
- D) summarizes and documents the firm's financial plan and budgets during the past year

Answer: <https://biology-forums.com/index.php?topic=575464>

Question 1723

If the only information you are given about Ryan Corporation, a large public company in business for many years, is that it has a current ratio of 2.9, what could you infer from this?

- A) It can meet the short-term obligations without any difficulty.
- B) You could determine that Ryan has a liquidity problem because Ryan's current ratio is greater than 2 which is the rule of thumb for the current ratio.
- C) Nothing, you would also need the current ratio's from the last few years of the S&P 500 Index.
- D) You could determine that Ryan has an activity problem because Ryan's current ratio is greater than 2 which is the rule of thumb for the current ratio.

Answer: <https://biology-forums.com/index.php?topic=575560>

Question 1724

A spin-off is a form of divestiture in which an operating unit becomes an independent company by issuing shares in it, on a pro rata basis to the parent company's shareholders.

Answer: <https://biology-forums.com/index.php?topic=578028>

Question 1725

A(n) _____ is neither debt nor equity but derives its value from an underlying asset.

- A) derivative security
- B) hybrid security
- C) financing lease
- D) operating lease

Answer: <https://biology-forums.com/index.php?topic=577765>

Question 1726

The over-the-counter (OTC) market is _____.

- A) a highly liquid market as compared to NASDAQ
- B) a market in which low risk-high return securities are traded
- C) an organized market in which all financial derivatives are traded
- D) a market where smaller, unlisted securities are traded

Answer: <https://biology-forums.com/index.php?topic=575378>

Question 1727

A _____ is responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.

- A) treasurer
- B) controller
- C) foreign exchange manager
- D) pension fund manager

Answer: <https://biology-forums.com/index.php?topic=575296>

Question 1728

Which of the following is an advantage for a firm to issue common stock over long-term debt?

- A) the cost of equity financing being less than the cost of debt financing
- B) the primary claim of equityholders on income and assets in the event of liquidation
- C) no maturity date on which the par value of the issue must be repaid
- D) the tax deductibility of dividends which lowers the cost of equity financing

Answer: <https://biology-forums.com/index.php?topic=576167>

Question 1729

The payment date is five days after the date of record, on which the company will mail the dividend payment to the holders of record.

Answer: <https://biology-forums.com/index.php?topic=577172>

Question 1730

From a firm's point-of-view, which of the following is true of issuance of convertible bonds?

- A) It acts as a permanent source of cheap funds.
- B) It results in a non-tax-deductible interest payments.
- C) It is an immediate sale of common stock.
- D) It decreases financial leverage upon conversion.

Answer: <https://biology-forums.com/index.php?topic=577858>

Question 1731

For a risk-indifferent manager, no change in return would be required for an increase in risk.

Answer: <https://biology-forums.com/index.php?topic=576353>

Question 1732

_____ is 100 percent minus total variable operating costs as a percentage of total sales.

- A) Profit margin
- B) Contribution margin
- C) Expense ratio
- D) Fixed coverage ratio

Answer: <https://biology-forums.com/index.php?topic=577003>

Question 1733

Contingent securities such as common stocks and bonds affect the reporting of a firm's earnings per share (EPS).

Answer: <https://biology-forums.com/index.php?topic=577822>

Question 1734

A firm has had the following earnings history over the last five years:

If the firm's dividend policy is based on a \$0.50 payout per share whenever it makes a positive earnings, increasing by \$0.05 to previous year dividends per share whenever earnings exceed \$1.50 per share, the annual dividends for 2014 and 2015 were _____.

- A) \$0.50 and \$0.60, respectively
- B) \$0.50 and \$0.55, respectively
- C) \$0.55 and \$0.65, respectively

D) \$0.60 and \$0.65, respectively

Answer: <https://biology-forums.com/index.php?topic=577261>

Question 1735

Depository banks holding Eurodollar deposits are _____.

- A) generally more closely regulated than U.S. banks and are therefore more risky
- B) generally less closely regulated than U.S. banks and are therefore more risky
- C) generally more closely regulated than U.S. banks and are therefore less risky
- D) largely located outside of the European countries and are therefore more risky

Answer: <https://biology-forums.com/index.php?topic=577579>

Question 1736

Harry Trading Company must choose its optimal capital structure. Currently, the firm has a 20 percent debt ratio and the firm expects to generate a dividend next year of \$5.44 per share. Dividends are expected to remain at this level indefinitely. Stockholders currently require a 12.1 percent return on their investment. Harry is considering changing its capital structure if it would benefit shareholders. The firm estimates that if it increases the debt ratio to 30 percent, it will increase its expected dividend to \$5.82 per share. Again, dividends are expected to remain at this new level indefinitely. However, because of the added risk, the required return demanded by stockholders will increase to 12.6 percent. Based on this information, should Harry make the change?

- A) Yes, since the value of the firm will increase by \$1.23 per share.
- B) No, since the value of the firm will decrease by \$1.23 per share.
- C) Yes, since the value of the firm will increase by \$0.25 per share.
- D) No, since the value of the firm will decrease by \$0.25 per share.

Answer: <https://biology-forums.com/index.php?topic=577160>

Question 1737

Ria's Doll Company has an outstanding preferred issue of stock with a par value of \$100 and an annual dividend of 10 percent (of par). Similar risk preferred stocks are yielding an 11.5 percent annual rate of return.

- (a) What is the current value of the outstanding preferred stock?
- (b) What will happen to price as the risk-free rate increases? Explain.

Answer: <https://biology-forums.com/index.php?topic=576313>

Question 1738

Time-series analysis evaluates the performance of various firms at the same point in time using financial ratios.

Answer: <https://biology-forums.com/index.php?topic=575514>

Question 1739

A(n) _____ replaces the existing operating management of an insolvent firm with a selected creditor committee.

- A) composition
- B) creditor control
- C) extension
- D) liquidation

Answer: <https://biology-forums.com/index.php?topic=578125>

Question 1740

In the DuPont system of analysis, the return on total assets (asset) is equal to _____.

- A) (return on equity) × (financial leverage multiplier)
- B) (return on equity) × (total asset turnover)
- C) (net profit margin) × (fixed asset turnover)
- D) (net profit margin) × (total asset turnover)

Answer: <https://biology-forums.com/index.php?topic=575612>

Question 1741

A firm is offered credit terms of 2/10 net 45 by most of its suppliers but frequently does not have the cash available to take the discount. The firm has a credit line available at a local bank at an interest rate of 12 percent. The firm should _____.

- A) give up the cash discount, financing the purchase with the line of credit
- B) take the cash discount and pay on the 45th day after the date of sale
- C) take the cash discount and pay on the first day of the cash discount period
- D) take the cash discount, financing the purchase with the line of credit, the cheaper source of funds

Answer: <https://biology-forums.com/index.php?topic=577608>

Question 1742

_____ float is the time that elapses between the deposit of a check by the payee and the actual availability of funds.

- A) Mail
- B) Processing
- C) Clearing
- D) Disbursement

Answer: <https://biology-forums.com/index.php?topic=577569>

Question 1743

An investor has \$1,000 that she is interested in investing in ABC stock, which is currently selling for \$10 per share. ABC's warrants are selling for \$7 per warrant. Each warrant entitles the holder to purchase three shares of ABC's common stock for \$8 per share. The warrant premium is _____.

- A) \$1
- B) \$2
- C) \$3
- D) \$4

Answer: <https://biology-forums.com/index.php?topic=577911>

Question 1744

An operating lease is when the present value of all its payments included as an asset and corresponding liability on a firm's balance sheet.

Answer: <https://biology-forums.com/index.php?topic=577782>

Question 1745

The _____ is a financial projection of a firm's short-term cash surpluses or shortages.

- A) operating financial plan
- B) cash budget
- C) strategic financial journal
- D) capital assets journal

Answer: <https://biology-forums.com/index.php?topic=575711>

Question 1746

As part of a union negotiation agreement, the United Clerical Workers Union conceded to be paid every two weeks instead of every week. A major firm employing hundreds of clerical workers had a weekly payroll of \$1,000,000 and the cost of short-term funds was 12 percent. The effect of this concession was to delay clearing time by one week. Due to the concession, the firm _____.

- A) realized an annual loss of \$120,000
- B) realized an annual savings of \$120,000
- C) increased its cash cycle
- D) decreased its cash turnover

Answer: <https://biology-forums.com/index.php?topic=577622>

Question 1747

The _____ is the compound annual rate of interest earned on a debt security purchased on a given date and held to maturity.

- A) risk premium
- B) yield curve
- C) risk-free rate
- D) yield to maturity

Answer: <https://biology-forums.com/index.php?topic=575972>

Question 1748

Government is typically a _____.

- A) net provider of funds because it borrows more than it saves
- B) net demander of funds because it borrows more than it saves
- C) net provider of funds because it can print money at will
- D) net demander of funds because it saves more than it borrows

Answer: <https://biology-forums.com/index.php?topic=575349>

Question 1749

What is the rate of return on an investment of \$16,278 if the company expects to receive \$3,000 per year for the next 10 years?

- A) 18 percent

- B) 13 percent
- C) 8 percent
- D) 3 percent

Answer: <https://biology-forums.com/index.php?topic=575890>

Question 1750

Collection float results from the lapse between the time that a firm deducts a payment from its checking account ledger and the time that funds are actually withdrawn from its accounts.

Answer: <https://biology-forums.com/index.php?topic=577516>

Question 1751

A firm is evaluating a proposal which has an initial investment of \$50,000 and has cash flows of \$15,000 per year for five years. The payback period of the project is _____.

- A) 1.5 years
- B) 2 years
- C) 3.3 years
- D) 4 years

Answer: <https://biology-forums.com/index.php?topic=576726>

Question 1752

If transportation costs were a huge portion of a firm's expenses and the firm expected gas prices to increase greatly in the next year, then in preparing its pro forma income statement the firm should _____.

- A) use the percentage of transportation costs from last year's sales
- B) decrease the percentage of transportation costs from the percentage of last year's sales
- C) increase the percentage of transportation costs from the percentage of last year's sales
- D) double the percentage of transportation costs from the percentage of last year's sales

Answer: <https://biology-forums.com/index.php?topic=575769>

Question 1753

The restrictive debt covenant that imposes fixed assets is to guarantee fixed-payment obligations by maintaining a specified level of fixed assets.

Answer: <https://biology-forums.com/index.php?topic=576003>

Question 1754

Corporate ethics policies typically apply to _____ in dealing with _____.

- A) employee actions; customers and creditors
- B) employee actions; customers, vendors, and regulators
- C) management actions; all corporate constituents
- D) employee actions; all corporate constituents

Answer: <https://biology-forums.com/index.php?topic=575281>

Question 1755

Global Logistics purchased a new machine on October 20th, 2014 for \$1,000,000 on credit. The supplier has offered A&A terms of 2/10, net 45. The current interest rate the bank is offering is 16 percent.

- (a) Compute the cost of giving up cash discount.
- (b) Should the firm take or give up the cash discount?
- (c) What is the effective rate of interest if the firm decides to take the cash discount by borrowing money on a discount basis?

Answer: <https://biology-forums.com/index.php?topic=577689>

Question 1756

Nondiversifiable risk reflects the contribution of an asset to the risk, or standard deviation, of the portfolio.

Answer: <https://biology-forums.com/index.php?topic=576457>

Question 1757

The statement of cash flows provides insight into a firm's operating, investment, and financing cash flows and reconciles them with changes in its cash and marketable securities during the period of concern.

Answer: <https://biology-forums.com/index.php?topic=575460>

Question 1758

In pledging accounts receivable, the percentage advanced against the adjusted collateral is determined by the borrower based on its overall evaluation

on the quality of the acceptable receivables and the expected cost of the liquidation.

Answer: <https://biology-forums.com/index.php?topic=577726>

Question 1759

A floating inventory lien is most attractive when the firm has a stable level of inventory that consists of a diversified group of relatively inexpensive merchandise.

Answer: <https://biology-forums.com/index.php?topic=577748>

Question 1760

The aggressive funding strategy is a strategy by which a firm finances all projected funds requirements with long-term funds and uses short-term financing only for emergencies or unexpected outflows.

Answer: <https://biology-forums.com/index.php?topic=577338>

Question 1761

The amount paid in by the original purchasers of common stock is shown by two entries in the firm's balance sheet—common stock and paid-in capital in excess of par on common stock.

Answer: <https://biology-forums.com/index.php?topic=575457>

Question 1762

The annual rate of return is referred to as the _____.

- A) discount rate
- B) marginal rate
- C) risk-free rate
- D) marginal cost

Answer: <https://biology-forums.com/index.php?topic=575786>

Question 1763

_____ are commonly issued in the reorganization of a failed or failing firm.

- A) Floating rate bonds
- B) Income bonds
- C) Mortgage bonds
- D) Equipment trust certificates

Answer: <https://biology-forums.com/index.php?topic=576079>

Question 1764

Find the future value at the end of year 3 of the following stream of cash flows received at the end of each year, assuming the firm can earn 8 percent on its investments.

- A) \$45,000
- B) \$53,396
- C) \$47,944
- D) \$56,690

Answer: <https://biology-forums.com/index.php?topic=575836>

Question 1765

A portfolio combining two assets whose returns are less than perfectly positive correlated can increase total risk to a level above that of either of the components.

Answer: <https://biology-forums.com/index.php?topic=576439>

Question 1766

Ignoring general market fluctuations, the stock's price would be expected to drop by the amount of the declared dividend on the ex dividend date.

Answer: <https://biology-forums.com/index.php?topic=577183>

Question 1767

The first step in the collection of overdue accounts is _____.

- A) a letter
- B) contacting a collection agency
- C) legal actions
- D) a personal visit

Answer: <https://biology-forums.com/index.php?topic=577499>

Question 1768

Otto is planning for his son's college education to begin ten years from today. He estimates the end-of-the-year tuition, books, and living expenses to be \$10,000 per year for a four-year degree. How much must Otto deposit today, at an interest rate of 12 percent, for his son to be able to withdraw \$10,000 per year for four years of college?

- A) \$12,880
- B) \$ 9,780
- C) \$40,000
- D) \$18,950

Answer: <https://biology-forums.com/index.php?topic=575902>

Question 1769

_____ leverage is concerned with the relationship between earnings before interest and taxes and earnings per share.

- A) Financial
- B) Operating
- C) Variable
- D) Total

Answer: <https://biology-forums.com/index.php?topic=577044>

Question 1770

Tangshan Mining borrowed \$100,000 for one year under a revolving credit agreement that authorized and guaranteed the firm access to \$200,000. The revolving credit agreement had a stated interest rate of 7.5 percent and charged the firm a 1 percent commitment fee on the unused portion of the agreement. Based on this information, the effective annual interest rate on the loan is _____.

- A) 7.5%
- B) 8.0%
- C) 8.5%
- D) 9.0%

Answer: <https://biology-forums.com/index.php?topic=577687>

Question 1771

In U.S., during the past 75 years, on an average the return on small-company stocks has levelled the return on large-company stocks.

Answer: <https://biology-forums.com/index.php?topic=576388>

Question 1772

Use of the capital asset pricing model (CAPM) in measuring the cost of common stock equity differs from the constant-growth valuation model in that it directly considers the firm's risk as reflected by beta.

Answer: <https://biology-forums.com/index.php?topic=576606>

Question 1773

A corporation is considering expanding operations to meet growing demand. With the capital expansion, the current accounts are expected to change. Management expects cash to increase by \$20,000, accounts receivable by \$40,000, and inventories by \$60,000. At the same time accounts payable will increase by \$50,000, accruals by \$10,000, and long-term debt by \$100,000. The change in net working capital is _____.

- A) an increase of \$120,000
- B) a decrease of \$60,000
- C) a decrease of \$120,000
- D) an increase of \$60,000

Answer: <https://biology-forums.com/index.php?topic=576843>

Question 1774

The cost of marginal investment in accounts receivable can be calculated by finding the difference between the average investment in accounts receivable before and after the introduction of the changes in credit standards.

Answer: <https://biology-forums.com/index.php?topic=577461>

Question 1775

Since the conversion feature provides the purchaser of a convertible bond with the possibility of becoming a stockholder, convertible bonds are a less expensive form of financing than similar-risk nonconvertible or straight bonds.

Answer: <https://biology-forums.com/index.php?topic=577828>

Question 1776

An investment banker has recommended a \$100,000 portfolio containing assets B, D, and F. \$20,000 will be invested in asset B, with a beta of 1.5; \$50,000 will be invested in asset D, with a beta of 2.0; and \$30,000 will be invested in asset F, with a beta of 0.5. The beta of the portfolio is _____.

- A) 1.25
- B) 1.33
- C) 1.45
- D) 1.85

Answer: <https://biology-forums.com/index.php?topic=576480>

Question 1777

The reason why maximizing share value and maximizing EPS do not give the same optimal capital structure is because _____.

- A) EPS maximization does not consider risk
- B) share value maximization does not consider risk
- C) EPS maximization considers cash flows
- D) EPS maximization does consider risk

Answer: <https://biology-forums.com/index.php?topic=577161>

Question 1778

A firm's _____ is the mix of long-term debt and equity utilized by the firm, which may significantly affect its value by affecting return and risk.

- A) dividend policy
- B) capital budget
- C) capital structure
- D) working capital

Answer: <https://biology-forums.com/index.php?topic=577098>

Question 1779

The asymmetric information explanation of capital structure suggests that firms will issue new debt only when the managers believe the firm's stock is overvalued; as a result, issuing new debt is considered a negative signal that will result in a decline in share price.

Answer: <https://biology-forums.com/index.php?topic=577092>

Question 1780

Since operating leases result in the receipt of services from an asset without increasing the assets or liabilities on a firm's balance sheet, leasing may result in misleading financial ratios.

Answer: <https://biology-forums.com/index.php?topic=577785>

Question 1781

Federal agency issues _____.

- A) are obligations of U.S. treasury
- B) generate slightly higher returns than corporate bonds
- C) generate slightly higher returns than U.S. Treasury issues
- D) don't have strong secondary market

Answer: <https://biology-forums.com/index.php?topic=577574>

Question 1782

The discount rate is the minimum return that must be earned on a project to leave a firm's market value unchanged.

Answer: <https://biology-forums.com/index.php?topic=576737>

Question 1783

A firm has an operating cycle of 170 days, an average payment period of 50 days, and an average age of inventory of 145 days. The firm's average collection period is _____ days.

- A) 25
- B) 75
- C) 95
- D) 120

Answer: <https://biology-forums.com/index.php?topic=577366>

Question 1784

An attempt to gain control of a target firm by buying sufficient shares of it in the marketplace is known as a _____ and is typically accomplished through a _____.

- A) friendly takeover; leveraged buyout
- B) leveraged buyout; consolidation
- C) friendly takeover; consolidation
- D) hostile takeover; tender offer

Answer: <https://biology-forums.com/index.php?topic=577995>

Question 1785

The percentage advanced by a lender constitutes the principal of a secured loan and varies according to the type and liquidity of the collateral.

Answer: <https://biology-forums.com/index.php?topic=577724>

Question 1786

The preferred approach to breakeven analysis for a multiproduct firm is the _____.

- A) breakeven point expressed in units
- B) breakeven point expressed in dollars
- C) cash breakeven point
- D) overall breakeven point

Answer: <https://biology-forums.com/index.php?topic=577008>

Question 1787

Which of the following is an area of career opportunities in financial services?

- A) supply chain management
- B) personal financial planning
- C) auditing of financial statements
- D) production planning

Answer: <https://biology-forums.com/index.php?topic=575224>

Question 1788

A firm's total asset turnover increased from 0.75 to 0.90. Which of the following is true about the given data?

- A) Its assets have been efficiently used to derive the optimum level of sales.
- B) Its assets have been efficiently used to derive the optimum level of net income.
- C) Its assets have been efficiently used to derive the minimum level of net income.
- D) Its assets have been efficiently used to derive the minimum level of gross profit.

Answer: <https://biology-forums.com/index.php?topic=575576>

Question 1789

Performance plans are plans that tie management compensation to measures such as EPS or growth in EPS.

Answer: <https://biology-forums.com/index.php?topic=575330>

Question 1790

An example of an external factor that affects a corporation's risk or beta, is _____.

- A) a change in the financing mix used
- B) toxic spills used during takeovers
- C) a change in the asset mix
- D) a change in top management

Answer: <https://biology-forums.com/index.php?topic=576484>

Question 1791

The primary advantage of a holding company, that permits the firm to control a large amount of assets with a relatively small dollar investment is known as _____.

- A) the leverage effect
- B) tax effects
- C) administrative effect
- D) risk protection

Answer: <https://biology-forums.com/index.php?topic=578108>

Question 1792

Making financing decisions includes _____.

- A) determining the appropriate mix of short-term and long-term financing
- B) deciding on which individual securities to select for investment

C) analyzing quarterly budget and performance reports

D) improving the productivity of manufacturing products

Answer: <https://biology-forums.com/index.php?topic=575316>

Question 1793

Cash flows and risk are the key determinants in share price. Increased risk, other things remaining the same, results in _____.

A) a lower share price

B) a higher share price

C) an unchanged share price

D) an undetermined share price

Answer: <https://biology-forums.com/index.php?topic=575266>

Question 1794

A common stockholder has no guarantee of receiving any cash inflows, but receives what is left after all other claims on the firm's income and assets have been satisfied.

Answer: <https://biology-forums.com/index.php?topic=576231>

Question 1795

The required return can be affected by changes in the risk free rate, even if the risk premium remains constant.

Answer: <https://biology-forums.com/index.php?topic=576346>

Question 1796

A firm has an average age of inventory of 101 days, an average collection period of 49 days, and an average payment period of 60 days. The firm's cash conversion cycle is _____ days.

A) 150

B) 90

C) 109

D) 11

Answer: <https://biology-forums.com/index.php?topic=577357>

Question 1797

The net value of fixed assets is also called its _____.

A) market value

B) par value

C) book value

D) intrinsic value

Answer: <https://biology-forums.com/index.php?topic=575484>

Question 1798

_____ measures the return earned on the common stockholders' investment in the firm.

A) Net profit margin

B) Price/earnings ratio

C) Return on equity

D) Return on total assets

Answer: <https://biology-forums.com/index.php?topic=575601>

Question 1799

A poison pill is a takeover defense in which a target firm finds an acquirer more to its liking than the initial hostile acquirer and prompts the two to compete to take over the firm.

Answer: <https://biology-forums.com/index.php?topic=578086>

Question 1800

The two basic measures of liquidity are _____.

A) inventory turnover and current ratio

B) current ratio and quick ratio

C) gross profit margin and ROE

D) current ratio and total asset turnover

Answer: <https://biology-forums.com/index.php?topic=575558>

Question 1801

The following table presents the Sally's Silly Service Company's net earnings for the past six years. Compute the growth rate in the company's earnings.

Answer: <https://biology-forums.com/index.php?topic=575916>

Question 1802

The basic motives for capital expenditures are to expand operations, to replace or renew fixed assets, or to obtain some other, less tangible benefit over a long period.

Answer: <https://biology-forums.com/index.php?topic=576659>

Question 1803

Xiao Xin owns stock in a company which has paid the annual dividends shown in Table 7.1. Calculate the growth rate of these dividends.

Answer: <https://biology-forums.com/index.php?topic=576319>

Question 1804

A spin-off means _____.

- A) a subsidiary being sold to existing management resulting in a new company
- B) a subsidiary merging completely with its holding company
- C) a subsidiary becoming an independent company
- D) a subsidiary being taken over by the federal government due to its incapacities to survive on its own

Answer: <https://biology-forums.com/index.php?topic=578046>

Question 1805

In general, the greater a firm's current assets relative to its short-term obligations, the better able it will be to pay its bills as they come due.

Answer: <https://biology-forums.com/index.php?topic=577301>

Question 1806

The Glass-Steagall Act _____.

- A) was intended to regulate the activities in the secondary market
- B) created the Securities Exchange Commission
- C) separated the activities of commercial and investment banks
- D) was intended to regulate the activities in the primary market

Answer: <https://biology-forums.com/index.php?topic=575409>

Question 1807

As a bond approaches maturity, the price of the bond will approach its par value until, the bond is worth its face value at maturity.

Answer: <https://biology-forums.com/index.php?topic=576050>

Question 1808

A U.S.-based MNC has three subsidiaries: S1 (40 percent owned by the MNC); S2 (33 percent owned by S1), and S3 (20 percent owned by S2). The taxable income for each firm is \$100 million. The local taxes for each firm are \$15 million, \$20 million, and \$10 million, respectively. The MNC's tax rate is 40 percent.

- (a) Can the MNC apply all of its local taxes as a credit against its U.S. taxes?
- (b) Based on the "grossing up" concept, calculate all tax credits applicable to the MNC.

Answer: <https://biology-forums.com/index.php?topic=578186>

Question 1809

The cost of retained earnings will always equal the cost of preferred stock.

Answer: <https://biology-forums.com/index.php?topic=576614>

Question 1810

Which of the following is an attribute of investment bankers?

- A) They make long-term investments for banking institutions.
- B) They bear the risk of selling a security issue.
- C) They act as middlemen between the issuer and the banker.
- D) They provide the issuer with advice relating to the amounts of dividend to be paid.

Answer: <https://biology-forums.com/index.php?topic=576269>

Question 1811

In an efficient market, stock prices adjust quickly to new public information.

Answer: <https://biology-forums.com/index.php?topic=576275>

Question 1812

The acceptance of a particular project usually has no impact on a firm's overall risk.

Answer: <https://biology-forums.com/index.php?topic=576878>

Question 1813

A call option is an option to sell a specified number of shares of a stock on or before some future date at a stated price.

Answer: <https://biology-forums.com/index.php?topic=577919>

Question 1814

Firms that require funds from external sources can obtain them _____.

- A) through financial institutions
- B) from central bank directly
- C) through forex market
- D) by issuing T-bills

Answer: <https://biology-forums.com/index.php?topic=575351>

Question 1815

The effective rate of interest differs from the nominal rate of interest in that it reflects the impact of compounding frequency.

Answer: <https://biology-forums.com/index.php?topic=575851>

Question 1816

Which of the following is a cash outflow?

- A) an increase in accounts payable
- B) a decrease in notes receivable
- C) an increase in accounts receivable
- D) an increase in accrued liabilities

Answer: <https://biology-forums.com/index.php?topic=575670>

Question 1817

_____ is a noncash charge.

- A) Labor expense
- B) Depreciation
- C) Salaries
- D) Rent

Answer: <https://biology-forums.com/index.php?topic=575663>

Question 1818

Both current and prospective shareholders are interested in the firm's current and future level of risk and return, which directly affect share price.

Answer: <https://biology-forums.com/index.php?topic=575509>

Question 1819

Financing decisions deal with the left-hand side of the firm's balance sheet.

Answer: <https://biology-forums.com/index.php?topic=575310>

Question 1820

A firm has arranged for a lockbox system to reduce collection time of accounts receivable. Currently the firm has an average collection period of 43 days, an average age of inventory of 50 days, and an average payment period of 10 days. The lockbox system will reduce the average collection period by 3 days by reducing processing, mail, and clearing float. The firm's cash conversion cycle _____.

- A) increases by 3 days
- B) decreases by 3 days
- C) increases by 6 days
- D) decreases by 6 days

Answer: <https://biology-forums.com/index.php?topic=577546>

Question 1821

Leasing allows the lessee, in effect, to depreciate land, which is prohibited if the land were purchased.

Answer: <https://biology-forums.com/index.php?topic=577788>

Question 1822

A lottery administrator has just completed the state's most recent \$50 million lottery. Receipts from lottery sales were \$50 million and the payout will be \$5 million at the end of each year for 10 years. The expenses of running the lottery were \$800,000. The state can earn an annual compound rate of 8 percent on any funds invested.

- (a) Calculate the gross profit to the state from this lottery.
- (b) Calculate the net profit to the state from this lottery (no taxes).

Answer: <https://biology-forums.com/index.php?topic=575826>

Question 1823

When considering a firm's financial decision alternative, financial managers should accept only those actions that are expected to increase the firm's profitability.

Answer: <https://biology-forums.com/index.php?topic=575244>

Question 1824

The tax liability of a corporation with ordinary income of \$105,000 is _____.

Range of taxable income Marginal rate

- \$ 0 to \$ 50,000 15%
- 50,000 to 75,000 25
- 75,000 to 100,000 34
- 100,000 to 335,000 39
- 335,000 to 10,000,000 34
- 10,000,000 to 15,000,000 35

- A) \$42,000
- B) \$35,700
- C) \$23,950
- D) \$24,200

Answer: <https://biology-forums.com/index.php?topic=575423>

Question 1825

A(n) _____ is an arrangement whereby an insolvent firm's creditors receive full payment, although not immediately.

- A) composition
- B) creditor control agreement
- C) extension
- D) liquidation

Answer: <https://biology-forums.com/index.php?topic=578123>

Question 1826

The present value of an ordinary annuity of \$350 each year for five years, assuming an opportunity cost of 4 percent, is _____.

- A) \$288
- B) \$1,896
- C) \$1,750
- D) \$1,558

Answer: <https://biology-forums.com/index.php?topic=575812>

Question 1827

Management has just discovered an excellent investment for which it needs additional funding. Relative to the discussion on asymmetric information, the firm should _____.

- A) finance with new common stock if management believes the firm is undervalued
- B) finance with debt if management believes the firm is undervalued
- C) finance with debt if management believes the firm is overvalued
- D) finance with preferred stock if the firm is at value

Answer: <https://biology-forums.com/index.php?topic=577124>

Question 1828

The cost of common stock equity refers to the cost of the next dollar of financing necessary to finance a new investment opportunity.

Answer: <https://biology-forums.com/index.php?topic=576534>

Question 1829

In comparison to convertibles, the exercise of a warrant shifts the firm's capital structure to a less highly levered position.

Answer: <https://biology-forums.com/index.php?topic=577889>

Question 1830

Recaptured depreciation is the portion of the sale price that is below the book value.

Answer: <https://biology-forums.com/index.php?topic=576848>

Question 1831

Which of the following instruments demonstrates the safety of principal characteristic common to marketable securities?

- A) common stock
- B) derivatives
- C) options
- D) Treasury bonds

Answer: <https://biology-forums.com/index.php?topic=577572>

Question 1832

For sales levels below the operating breakeven point, sales revenue exceeds total operating costs, and earnings before interest and taxes is greater than zero.

Answer: <https://biology-forums.com/index.php?topic=576972>

Question 1833

Beta coefficient is an index of the degree of movement of an asset's return in response to a change in the risk-free asset.

Answer: <https://biology-forums.com/index.php?topic=576465>

Question 1834

Majority of actively traded warrants are listed on the _____.

- A) NASDAQ
- B) American Stock Exchange
- C) New York Stock Exchange
- D) Singapore Stock Exchange

Answer: <https://biology-forums.com/index.php?topic=577900>

Question 1835

After the stock dividend is paid, the per share value of a stockholder's stock will remain the same as the value before the stock dividend and, thus, the market value of his or her total holdings in the firm will remain unchanged.

Answer: <https://biology-forums.com/index.php?topic=577271>

Question 1836

According to the efficient market hypothesis, prices of actively traded stocks _____.

- A) can be under- or over-valued in an efficient market
- B) can only be under-valued in an efficient market
- C) do not differ from their true values in an efficient market
- D) can only be over-valued in an efficient market

Answer: <https://biology-forums.com/index.php?topic=576288>

Question 1837

Leveraged buyouts require a target firm _____.

- A) to have low level of investments in fixed assets
- B) to possess high leverage in its capital structure
- C) to maintain relatively high provision for doubtful accounts
- D) to have a high level of bankable assets

Answer: <https://biology-forums.com/index.php?topic=578039>

Question 1838

According to the CAPM, the required return of an asset is the sum of risk-free rate of return and beta times the risk premium.

Answer: <https://biology-forums.com/index.php?topic=576612>

Question 1839

One of the most common designations for the beginning of the credit period is _____.

- A) 2/10
- B) the date of invoice
- C) the end of a quarter
- D) the transaction date

Answer: <https://biology-forums.com/index.php?topic=577602>

Question 1840

Options are the most popular type of _____.

- A) derivative security
- B) hybrid security
- C) convertible security
- D) fixed interest bearing security

Answer: <https://biology-forums.com/index.php?topic=577926>

Question 1841

In the next planning period, a firm plans to change its policy of all cash sales and initiate a credit policy requiring payment within 30 days. The statements that will be directly affected immediately are the _____.

- A) pro forma income statement, balance sheet, and cash budget
- B) pro forma balance sheet and cash budget
- C) cash budget and statement of retained earnings
- D) pro forma income statement and pro forma balance sheet

Answer: <https://biology-forums.com/index.php?topic=575749>

Question 1842

For a project that has an initial cash outflow followed by cash inflows, the profitability index (PI) is equal to the present value of cash inflows divided by the cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576747>

Question 1843

Longer the maturity, higher is the cost of a bond.

Answer: <https://biology-forums.com/index.php?topic=576011>

Question 1844

On a purely theoretical basis, IRR is a better approach when selecting among two mutually exclusive projects.

Answer: <https://biology-forums.com/index.php?topic=576795>

Question 1845

Diversifiable risk is the relevant portion of risk attributable to market factors that affect all firms.

Answer: <https://biology-forums.com/index.php?topic=576455>

Question 1846

In general, non-U.S. companies have much higher debt ratios than their U.S. counterparts because financial markets are much more developed in the United States than elsewhere.

Answer: <https://biology-forums.com/index.php?topic=577080>

Question 1847

Given a financial manager's preference for faster receipt of cash flows, a longer depreciable life is preferred to a shorter one.

Answer: <https://biology-forums.com/index.php?topic=575629>

Question 1848

A firm may have a negative cash conversion cycle if it carries _____.

- A) very little inventory and sells its products on credit
- B) high inventory and sells its products on credit

C) very little inventory and sells its products for cash

D) high inventory and sells its products for cash

Answer: <https://biology-forums.com/index.php?topic=577383>

Question 1849

_____ leverage measures the effect of fixed _____ costs on the relationship between EBIT and EPS.

A) Operating; operating

B) Financial; financial

C) Operating; financial

D) Financial; operating

Answer: <https://biology-forums.com/index.php?topic=577049>

Question 1850

Recessions associated with a banking crisis tend to be more severe than other recessions because many businesses rely on credit to operate.

Answer: <https://biology-forums.com/index.php?topic=575403>

Question 1851

Dividends paid to stockholders is tax deductible.

Answer: <https://biology-forums.com/index.php?topic=576166>

Question 1852

The change in net working capital when evaluating a capital budgeting decision is _____.

A) the change in fixed liabilities minus the change in fixed assets

B) the increase in current assets

C) the increase in current liabilities

D) the change in current assets minus the change in current liabilities

Answer: <https://biology-forums.com/index.php?topic=576841>

Question 1853

Corporate venture capital funds are subsidiaries of financial institutions, particularly banks, set up to help young firms grow and, it is hoped, become major customers of the institutions.

Answer: <https://biology-forums.com/index.php?topic=576237>

Question 1854

If the P/E paid is greater than the P/E of the acquiring company, on a postmerger basis the target firm's EPS increases and the acquiring firm's EPS decreases.

Answer: <https://biology-forums.com/index.php?topic=578056>

Question 1855

Legal capital refers to _____.

A) a legal constraint imposed by lenders of a firm to maintain a certain level of debt to equity ratio and capital

B) capital impairment restrictions are generally established to provide a sufficient equity base to protect creditors' claims

C) the capital which is typically measured by the retained earnings

D) the capital which is typically measured by net income

Answer: <https://biology-forums.com/index.php?topic=577239>

Question 1856

Common stockholders are sometimes referred to as _____.

A) non preemptive right holders

B) managers

C) creditors

D) residual owners

Answer: <https://biology-forums.com/index.php?topic=576207>

Question 1857

Convertible preferred stock and convertible bonds are normally convertible over _____, respectively.

A) a limited time period and an unlimited time period

B) an unlimited time period and a limited time period

C) a limited time period and a limited time period

D) an unlimited time period and an unlimited time period

Answer: <https://biology-forums.com/index.php?topic=577840>

Question 1858

Accounting exposure is the risk resulting from the effects of changes in foreign exchange rates on the translated value of a firm's financial statement accounts denominated in a given foreign currency.

Answer: <https://biology-forums.com/index.php?topic=578190>

Question 1859

Despite the extensive research conducted in recent years in the area of capital structure theory, it is not yet possible to provide financial managers with a specified methodology for use in determining a firm's optimal capital structure.

Answer: <https://biology-forums.com/index.php?topic=577086>

Question 1860

The major weakness of payback period in evaluating projects is that it cannot specify the appropriate payback period in light of the wealth maximization goal.

Answer: <https://biology-forums.com/index.php?topic=576720>

Question 1861

If a firm gives up the cash discount on goods purchased on credit, the firm should pay the bill _____.

- A) as per its will
- B) on the last day of the discount date
- C) after the credit period
- D) on the last day of the credit period

Answer: <https://biology-forums.com/index.php?topic=577607>

Question 1862

The three major cash flow components include the initial investment, operating cash flows, and terminal cash flow.

Answer: <https://biology-forums.com/index.php?topic=576813>

Question 1863

The dividend exclusion for corporations receiving dividends from another corporation has resulted in _____.

- A) a lower cost of equity for the corporation paying the dividend
- B) a higher relative cost of bond-financing for the corporation paying the dividend
- C) stock investments being relatively less attractive, relative to bond investments made by one corporation in another corporation
- D) stock investments being relatively more attractive relative to bond investments made by one corporation in another corporation

Answer: <https://biology-forums.com/index.php?topic=575433>

Question 1864

The higher the risk of a project, the higher its risk-adjusted discount rate and thus the lower the net present value for a given stream of cash inflows.

Answer: <https://biology-forums.com/index.php?topic=576919>

Question 1865

Investors should recognize that betas are calculated using historical data and that past performance relative to the market average may not accurately predict future performance.

Answer: <https://biology-forums.com/index.php?topic=576463>

Question 1866

Which of the following is true of a conglomerate merger?

- A) It occurs when a firm acquires a supplier or a customer.
- B) It involves the combination of firms in unrelated businesses.
- C) It is achieved by acquiring a firm that is in the same general industry but neither in the same line of business nor a supplier or customer.
- D) It results in the expansion of a firm's operations in a given product line and at the same time eliminates a competitor.

Answer: <https://biology-forums.com/index.php?topic=578006>

Question 1867

Appropriate collateral for a loan secured under a floating inventory lien is _____.

- A) cars

- B) granite slabs
- C) air conditioners
- D) paper clips

Answer: <https://biology-forums.com/index.php?topic=577750>

Question 1868

If the net cash flow is less than the minimum cash balance, financing is required.

Answer: <https://biology-forums.com/index.php?topic=575723>

Question 1869

The empirical measurement of beta can be approached by using least-squares regression analysis to find the regression coefficient (b_j) in the equation for the slope of the "characteristic line."

Answer: <https://biology-forums.com/index.php?topic=576462>

Question 1870

One basic weakness of the simplified pro forma approaches lies in the assumption that certain variables, such as cash, accounts receivable, and inventories, can be forced to take on certain "desired" values.

Answer: <https://biology-forums.com/index.php?topic=575763>

Question 1871

Using the data from Table 8.3, what is the portfolio expected return if you invest 100 percent of your money in X, borrow an amount equal to half of your own investment at the risk-free rate and invest your borrowings in asset X?

- A) 15.0%
- B) 22.5%
- C) 25.0%
- D) 27.5%

Answer: <https://biology-forums.com/index.php?topic=576499>

Question 1872

Total leverage exists whenever the percentage change in earnings per share (EPS) resulting from a given percentage change in sales is greater than the percentage change in sales.

Answer: <https://biology-forums.com/index.php?topic=577031>

Question 1873

When computing an interest or growth rate, the rate will increase with a decrease in future value, holding present value and the number of periods constant.

Answer: <https://biology-forums.com/index.php?topic=575875>

Question 1874

According to the traditional approach to capital structure, the value of a firm will be maximized when _____.

- A) the financial leverage is maximized
- B) the cost of debt is minimized
- C) the weighted average cost of capital is minimized
- D) the dividend payout is maximized

Answer: <https://biology-forums.com/index.php?topic=577137>

Question 1875

Behavioral approaches for dealing with risk include annualized net present values and risk-adjusted discount rates.

Answer: <https://biology-forums.com/index.php?topic=576881>

Question 1876

Whenever the percentage change in EBIT resulting from a given percentage change in sales is greater than the percentage change in sales, operating leverage exists.

Answer: <https://biology-forums.com/index.php?topic=577022>

Question 1877

The liquidity of a firm is measured by its ability to satisfy its short-term obligations as they come due.

Answer: <https://biology-forums.com/index.php?topic=575524>

Question 1878

In economic conditions characterized by short-term interest rates which exceed long-term interest rates, the financing strategy which would maximize profits is _____ strategy.

- A) the aggressive
- B) the conservative
- C) the trade-off
- D) a seasonal

Answer: <https://biology-forums.com/index.php?topic=577394>

Question 1879

Subordination means that subsequent creditors agree to wait until all claims of the senior debt are satisfied.

Answer: <https://biology-forums.com/index.php?topic=576007>

Question 1880

In 2003-2004, the United States signed a regional trade pact with the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua called the Central American Free Trade Agreement or CAFTA.

Answer: <https://biology-forums.com/index.php?topic=578160>

Question 1881

If a firm pays out a higher percentage of earnings, new equity capital will have to be raised with common stock, which will result in higher control and earnings for the existing owners.

Answer: <https://biology-forums.com/index.php?topic=577233>

Question 1882

If the expected return were above the required return, investors would buy an asset, driving its price up and its expected return down.

Answer: <https://biology-forums.com/index.php?topic=576281>

Question 1883

Call options are sold with the expectation that the market price of the underlying security will fall while put options are sold with the expectation that the market price of the underlying security will rise.

Answer: <https://biology-forums.com/index.php?topic=577921>

Question 1884

The key inputs for preparing pro forma income statements using the simplified approaches are the _____.

- A) sales forecast for the preceding year and financial statements for the coming year
- B) sales forecast for the coming year and the cash budget for the preceding year
- C) sales forecast for the coming year and financial statements for the preceding year
- D) cash budget for the coming year and sales forecast for the preceding year

Answer: <https://biology-forums.com/index.php?topic=575748>

Question 1885

For the year ended December 31, 2014, a corporation had cash flow from operating activities of \$20,000, cash flow from investment activities of -\$15,000, and cash flow from financing activities of -\$10,000. The statement of cash flows would show a _____.

- A) net increase of \$5,000 in cash and marketable securities
- B) net decrease of \$5,000 in cash and marketable securities
- C) net decrease of \$15,000 in cash and marketable securities
- D) net increase of \$25,000 in cash and marketable securities

Answer: <https://biology-forums.com/index.php?topic=575680>

Question 1886

A customer sends payment to a post office box which is emptied by a firm's bank daily. The bank then processes the payments and notifies the firm of the day's collections. This collection technique is known as _____.

- A) a direct send
- B) concentration banking
- C) the lockbox system
- D) controlled disbursing

Answer: <https://biology-forums.com/index.php?topic=577550>

Question 1887

In computing the weighted average cost of capital, the historical weights are either book value or market value weights based on actual capital structure proportions.

Answer: <https://biology-forums.com/index.php?topic=576641>

Question 1888

Mercosur is a major South American trading bloc that includes countries that account for more than half of the total of Latin America's GDP.

Answer: <https://biology-forums.com/index.php?topic=578157>

Question 1889

Milton Glasses recently paid a dividend of \$1.70 per share, is currently expected to grow at a constant rate of 5%, and has a required return of 11%. Milton Glasses has been approached to buy a new company. Milton estimates if it buys the company, its constant growth rate would increase to 6.5%, but the firm would also be riskier, therefore increasing the required return of the company to 12%. Should Milton go ahead with the purchase of the new company?

- A) Yes, because the value of the Milton Co. will increase by \$3.17 per share
- B) Yes, because the value of the Milton Co. will increase by \$2.56 per share
- C) Yes, because the value of the Milton Co. will increase by \$4.59 per share
- D) No, because the value of the Milton Co. will decrease by \$3.17 per share

Answer: <https://biology-forums.com/index.php?topic=576348>

Question 1890

The market value of a convertible bond will exceed the conversion value or straight bond value, whichever is greater, by an amount called the market premium. This premium exists because _____.

- A) markets are efficient
- B) buyers and sellers do not usually agree on the conversion value
- C) purchasers expect future stock price movements to be positive
- D) the straight bond value is close to the conversion value

Answer: <https://biology-forums.com/index.php?topic=577872>

Question 1891

Tangshan Mining is attempting to acquire Zhengsen Mining. Selected financial data is presented for both companies in the table below:

Tangshan Mining has sufficient authorized but unissued shares to carry out the proposed merger.

- (a) Calculate the EPS of Tangshan Mining and Zhengsen Mining before the merger.
- (b) If the ratio of exchange is 1.8, what will be the earnings per share of the merged company?
- (c) Repeat part (a) if the ratio of exchange is 2.0.
- (d) Repeat part (a) if the ratio of exchange is 2.2
- (e) discuss the principal illustrated by your answers to parts (a) through (d)

Answer: <https://biology-forums.com/index.php?topic=578083>

Question 1892

The goal of an efficient portfolio is to _____.

- A) achieve a predetermined rate of return for a given level of risk
- B) maximize risk in order to maximize profit
- C) minimize profit in order to minimize risk
- D) minimize risk for a given level of return

Answer: <https://biology-forums.com/index.php?topic=576424>

Question 1893

A method of acquisition in which the acquiring firm exchanges its debt for shares of the target company according to a predetermined ratio is called a leveraged buyout.

Answer: <https://biology-forums.com/index.php?topic=578058>

Question 1894

Only a firm's permanent financing requirement (and not the seasonal requirement) is financed with _____ in the aggressive funding strategy.

- A) long-term debt
- B) T-bills
- C) retained earnings
- D) accounts payable

Answer: <https://biology-forums.com/index.php?topic=577398>

Question 1895

Tangshan Mining is considering issuing preferred stock. The preferred stock would have a par value of \$75 and a 5.50 percent dividend. What is the cost of preferred stock for Tangshan if flotation costs would amount to 5.5 percent of par value?

- A) 5.50%
- B) 5.27%
- C) 7.73%
- D) 5.82%

Answer: <https://biology-forums.com/index.php?topic=576592>

Question 1896

Dividend payment policy is a form of _____.

- A) capital budgeting policy
- B) financing policy
- C) working capital policy
- D) dividend reinvestment policy

Answer: <https://biology-forums.com/index.php?topic=577212>

Question 1897

The market price of a callable bond will not generally exceed its call price, except in the case of a convertible bond.

Answer: <https://biology-forums.com/index.php?topic=576056>

Question 1898

A compensating balance not only forces the borrower to be a good customer of the bank but may also raise the interest cost to the borrower.

Answer: <https://biology-forums.com/index.php?topic=577651>

Question 1899

Depreciation is considered to be an outflow of cash.

Answer: <https://biology-forums.com/index.php?topic=575653>

Question 1900

The optimal capital structure is the one that balances _____.

- A) return and risk factors in order to maximize profits
- B) return and risk factors in order to maximize earnings per share
- C) return and risk factors in order to maximize market value
- D) return and risk factors in order to maximize dividends

Answer: <https://biology-forums.com/index.php?topic=577134>

Question 1901

Nico wants to invest all of his money in just two assets: the risk-free asset and the market portfolio. What is Nico's portfolio beta if he invests a quarter of his money in the market portfolio and the rest in the risk free asset?

- A) 0.00
- B) 0.25
- C) 0.75
- D) 1.00

Answer: <https://biology-forums.com/index.php?topic=576493>

Question 1902

Call options are purchased with the expectation that the market price of the underlying security will rise while put options are purchased with the expectation that the market price of the underlying security will fall.

Answer: <https://biology-forums.com/index.php?topic=577920>

Question 1903

Nonmanufacturing firms are more likely to have positive cash conversion cycles; they generally carry smaller, faster-moving inventories and often sell their products for cash.

Answer: <https://biology-forums.com/index.php?topic=577332>

Question 1904

Under the basic MACRS procedures, the depreciable value of an asset is its full cost, including outlays for installation.

Answer: <https://biology-forums.com/index.php?topic=575627>

Question 1905

A warrant is attached to a \$1,000 par, 10 percent, 15-year bond, paying annual interest and having 10 warrants attached for the purchase of the firm's stock. The bonds were initially sold for \$1,020. When issued similar risk straight bonds were selling to yield a 12 percent rate of return. Calculate the implied price of the warrant.

Answer: <https://biology-forums.com/index.php?topic=577913>

Question 1906

One of the key attributes that makes a firm a good candidate for an LBO is that it has a relatively high level of debt and a low level of liquid assets.

Answer: <https://biology-forums.com/index.php?topic=578022>

Question 1907

The Eurocurrency market is a market for short-term bank deposits denominated in U.S. dollars or other easily convertible currencies.

Answer: <https://biology-forums.com/index.php?topic=575376>

Question 1908

Which of the following is true of equity?

- A) equityholders do not have voting rights.
- B) It does not mature, so repayment is not required.
- C) It is a temporary form of financing for a firm.
- D) Equity financing is obtained from creditors.

Answer: <https://biology-forums.com/index.php?topic=576205>

Question 1909

An IRR approach to capital rationing involves graphically plotting project IRRs in descending order against total dollar investment on an _____ graph.

- A) ANPV
- B) NPV
- C) RADR
- D) IOS

Answer: <https://biology-forums.com/index.php?topic=576950>

Question 1910

An opportunity cost is a cash flow that could be realized from the best alternative use of an owned asset.

Answer: <https://biology-forums.com/index.php?topic=576822>

Question 1911

Incremental cash flows represent the additional cash flows expected as a direct result of the proposed project.

Answer: <https://biology-forums.com/index.php?topic=576812>

Question 1912

The tax deductibility of various expenses such as general and administrative expenses _____.

- A) increases their pretax cost
- B) reduces their after-tax cost
- C) has no effect on their after-tax cost
- D) has an unpredictable effect on their after-tax cost

Answer: <https://biology-forums.com/index.php?topic=575422>

Question 1913

The amount of leverage in a firm's capital structure—the mix of long-term debt and equity maintained by the firm—can significantly affect its value by affecting return and risk.

Answer: <https://biology-forums.com/index.php?topic=576962>

Question 1914

An excess earnings accumulation tax is levied when _____.

- A) shareholders receive dividends which exceed a firm's earnings
- B) firms do not pay dividends in order to delay the owners' tax liability
- C) firms do not pay dividends to reinvest in the firm
- D) earnings exceed accumulated dividends over the years

Answer: <https://biology-forums.com/index.php?topic=577241>

Question 1915

The cost of capital acts as a major link between a firm's long-term investment decisions and the wealth of the firm's owners as determined by the market value of their shares.

Answer: <https://biology-forums.com/index.php?topic=576540>

Question 1916

The operating cycle is the length of time a firm's cash is tied up between payment for production inputs and receipt of payment from the sale of the resulting finished product.

Answer: <https://biology-forums.com/index.php?topic=577323>

Question 1917

In the capital asset pricing model, the beta coefficient is a measure of _____.

- A) unsystematic risk
- B) non-aggregate risk
- C) business-specific risk
- D) nondiversifiable risk

Answer: <https://biology-forums.com/index.php?topic=576519>

Question 1918

Tangshan Mining is attempting to acquire Zhengsen Mining. Selected financial data is presented for both companies in the table below:

Tangshan Mining has sufficient authorized but unissued shares to carry out the proposed merger. If the ratio of exchange is 1.8, what will be the EPS of the merged firm?

- A) \$1.00
- B) \$1.03
- C) \$1.08
- D) \$2.00

Answer: <https://biology-forums.com/index.php?topic=578080>

Question 1919

Accounts payable are spontaneous secured sources of short-term financing that arise from the normal operations of a firm.

Answer: <https://biology-forums.com/index.php?topic=577584>

Question 1920

The cost of new common stock is normally greater than any other long-term financing cost.

Answer: <https://biology-forums.com/index.php?topic=576608>

Question 1921

Independent projects are those whose cash flows are unrelated to one another; the acceptance of one does not eliminate the others from further consideration.

Answer: <https://biology-forums.com/index.php?topic=576674>

Question 1922

Projects having higher cash inflows in the early years tend to be less sensitive to changes in the cost of capital and are therefore often acceptable at higher discount rates compared to projects with higher cash inflows that occur in the later years.

Answer: <https://biology-forums.com/index.php?topic=576785>

Question 1923

Under conservative funding strategy, short-term financing is used only to finance an emergency, an unexpected outflow of funds, and the variable portion of a firm's current assets.

Answer: <https://biology-forums.com/index.php?topic=577340>

Question 1924

Behavioral approaches _____.

- A) are used to explicitly recognize project risk
- B) are used to get a feel for project risk
- C) are not used by rational financial managers
- D) are used to quantify the risk

Answer: <https://biology-forums.com/index.php?topic=576896>

Question 1925

A normal probability distribution is a symmetrical distribution whose shape resembles a bell-shaped curve.

Answer: <https://biology-forums.com/index.php?topic=576389>

Question 1926

A _____ is a telegraphic communication that, via bookkeeping entries, removes funds from the payer's bank and deposits them in an account of the payee's bank.

- A) direct send
- B) wire transfer
- C) depository transfer check
- D) preauthorized check

Answer: <https://biology-forums.com/index.php?topic=577555>

Question 1927

Flotation costs reduce the net proceeds from the sale of a bond whether sold at a premium, at a discount, or at its par value.

Answer: <https://biology-forums.com/index.php?topic=576562>

Question 1928

Which of the following is considered as a major offshore center for Euromarket business?

- A) Cuba
- B) North Korea
- C) Iran
- D) Hong Kong

Answer: <https://biology-forums.com/index.php?topic=578165>

Question 1929

A nominal rate of interest is equal to the sum of the real rate of interest plus the risk free rate of interest.

Answer: <https://biology-forums.com/index.php?topic=575940>

Question 1930

Because dividends are taxed at the same rate as capital gains under the 2003 Tax Act, a firm's strategy of paying low or no dividends primarily offers tax advantages to wealthy stockholders through tax deferral.

Answer: <https://biology-forums.com/index.php?topic=577231>

Question 1931

A holding company is a corporation which is controlled by one or more other corporations.

Answer: <https://biology-forums.com/index.php?topic=577958>

Question 1932

Any action taken by a financial manager that increases risk will also increase the required return.

Answer: <https://biology-forums.com/index.php?topic=576343>

Question 1933

The call price of a security generally exceeds the security's par value by an amount equal to _____.

- A) one year's stated interest
- B) the straight bond value
- C) the market value of one share of common stock
- D) the market premium

Answer: <https://biology-forums.com/index.php?topic=577854>

Question 1934

Under an aggressive funding strategy, a firm funds its seasonal requirements with short-term debt and its permanent requirements with long-term debt.

Answer: <https://biology-forums.com/index.php?topic=577336>

Question 1935

A generous benefactor to a local ballet plans to make a one-time endowment that would provide the ballet with \$150,000 per year into perpetuity. The rate of interest is expected to be 5 percent for all future time periods. How large must the endowment be?

- A) \$ 300,000
- B) \$3,000,000
- C) \$ 750,000
- D) \$1,428,571

Answer: <https://biology-forums.com/index.php?topic=575814>

Question 1936

Convertible securities can be issued _____.

- A) with an intention to raise cheap funds permanently
- B) with higher rates of interest than nonconvertibles
- C) to raise funds without affecting the capital structure
- D) with far fewer restrictive covenants than nonconvertibles

Answer: <https://biology-forums.com/index.php?topic=577851>

Question 1937

Which of the following is true of efficient-market hypothesis?

- A) Securities are typically in disequilibrium, meaning they are fairly priced and their expected returns are more than their required returns.
- B) Insider trading scandals have proven that stocks are not fully and fairly priced; as a result, it would be worthwhile for investors should spend time searching for mispriced (over- or under-valued) stocks.
- C) At any point in time, security prices fully reflect all internal information available about the firm and its securities, and these prices are insensitive to new information.
- D) Since stocks are fully and fairly priced, it follows that investors should not waste their time trying to find and capitalize on miss-priced (undervalued or overvalued) securities.

Answer: <https://biology-forums.com/index.php?topic=576291>

Question 1938

How many years would it take for Jughead to save an adequate amount for retirement if he deposits \$2,000 per month into an account beginning today that pays 12 percent per year if he wishes to have a total of \$1,000,000 at retirement?

- A) 13 years
- B) 16 years
- C) 15 years
- D) 12 years

Answer: <https://biology-forums.com/index.php?topic=575910>

Question 1939

Tangshan China Company's stock is currently selling for \$80.00 per share. The expected dividend one year from now is \$4.00 and the required return is 13 percent. What is Tangshan's dividend growth rate assuming that dividends are expected to grow at a constant rate forever?

- A) 8%
- B) 9%
- C) 10%
- D) 11%

Answer: <https://biology-forums.com/index.php?topic=576304>

Question 1940

The asymmetric information explanation of capital structure suggests that firms will issue new equity only when the managers believe the firm's stock is overvalued; as a result, issuing new equity is considered a negative signal that will result in a decline in share price.

Answer: <https://biology-forums.com/index.php?topic=577091>

Question 1941

The tax treatment regarding the sale of existing assets that are sold for their book value results in _____.

- A) an ordinary tax benefit
- B) no tax benefit or liability
- C) recaptured depreciation taxed as ordinary income
- D) a capital gain tax liability and recaptured depreciation taxed as ordinary income

Answer: <https://biology-forums.com/index.php?topic=576858>

Question 1942

Net profit after taxes is _____.

- A) gross profits minus operating expenses
- B) sales revenue minus cost of goods sold
- C) EBITDA minus interest
- D) EBIT minus interest and taxes

Answer: <https://biology-forums.com/index.php?topic=575478>

Question 1943

Which of the following is true of annuities?

- A) An ordinary annuity is an equal payment paid or received at the beginning of each period.
- B) An annuity due is a payment paid or received at the beginning of each period that increases by an equal amount each period.
- C) An annuity due is an equal stream of cash flows is paid or received at the beginning of each period.
- D) An ordinary annuity is an equal payment paid or received at the end of each period that increases by an equal amount each period.

Answer: <https://biology-forums.com/index.php?topic=575798>

Question 1944

A firm arranges a discount loan at a 12 percent interest rate, and borrows \$100,000 for one year. The stated interest rate is _____ and the effective interest rate is _____.

- A) 12.00%; 12.00%
- B) 13.64%; 12.00%
- C) 12.00%; 13.64%
- D) 12.00%; 10.71%

Answer: <https://biology-forums.com/index.php?topic=577680>

Question 1945

A firm has an issue of \$1,000 par value bonds with a 12 percent stated interest rate outstanding. The issue pays interest annually and has 10 years remaining to its maturity date. If bonds of similar risk are currently earning 8 percent, the firm's bond will sell for _____ today.

- A) \$1,000
- B) \$805.20
- C) \$1,115.50
- D) \$1,268.40

Answer: <https://biology-forums.com/index.php?topic=576126>

Question 1946

As the need for capital increases beyond the optimum capital structure, the cost of debt financing will _____ the firm's weighted average cost of capital.

- A) increase, lowering
- B) increase, raising
- C) decrease, lowering
- D) decrease, raising

Answer: <https://biology-forums.com/index.php?topic=576653>

Question 1947

The _____ is an inventory management technique that minimizes inventory investment by having materials inputs arrive at exactly the time they are needed for production.

- A) ABC system
- B) FIFO method
- C) MRP system
- D) JIT system

Answer: <https://biology-forums.com/index.php?topic=577433>

Question 1948

Simulation is an approach that evaluates the impact on return of simultaneous changes in a number of variables.

Answer: <https://biology-forums.com/index.php?topic=576893>

Question 1949

Federal agency issues are obligations of the U.S. Treasury and are readily accepted as low-risk securities.

Answer: <https://biology-forums.com/index.php?topic=577531>

Question 1950

Opportunity costs should be included as cash outflows when determining a project's incremental cash flows.

Answer: <https://biology-forums.com/index.php?topic=576820>

Question 1951

The common stock book value model ignores a firm's expected earnings potential and generally lacks any true relationship to the firm's value in the marketplace.

Answer: <https://biology-forums.com/index.php?topic=576321>

Question 1952

Which of the following represents a disadvantage for holding companies?

- A) relatively high dollar investment associated with it
- B) increased risk resulting from the leverage effect
- C) control of lesser amounts of assets than they could acquire through mergers
- D) failure of one of the companies results in the failure of the entire holding company

Answer: <https://biology-forums.com/index.php?topic=578114>

Question 1953

Xiao Xin is planning to accumulate \$40,000 by the end of 5 years by making 5 equal annual deposits. If she plans to make her first deposit today and can earn an annual compound rate of 9 percent on her investment, how much must each deposit be in order to accumulate the \$40,000?

- A) \$ 6,132
- B) \$ 6,684
- C) \$23,844
- D) \$ 9,434

Answer: <https://biology-forums.com/index.php?topic=575896>

Question 1954

A nonconventional cash flow pattern is one in which an initial inflow is followed by a series of inflows and outflows.

Answer: <https://biology-forums.com/index.php?topic=576685>

Question 1955

Which of the following is a restrictive covenant?

- A) to maintain satisfactory accounting records
- B) to pay the taxes due
- C) to supply audited financial statements
- D) to impose fixed asset restrictions

Answer: <https://biology-forums.com/index.php?topic=576018>

Question 1956

One measure of the cost of common stock equity is the rate at which investors discount the expected common stock dividends of the firm to determine its share value.

Answer: <https://biology-forums.com/index.php?topic=576602>

Question 1957

In an aggressive financing strategy, a firm anticipating a large increase in sales for the coming period should finance the increase in working capital with _____.

- A) the sale of common stock
- B) the sale of a bond issue
- C) a line of credit
- D) a long-term note from the bank

Answer: <https://biology-forums.com/index.php?topic=577386>

Question 1958

If a project's IRR is greater than zero, the project should be accepted.

Answer: <https://biology-forums.com/index.php?topic=576767>

Question 1959

If accounts receivable increase by \$1,000,000, inventory decreases by \$500,000, and accounts payable increase by \$500,000, net working capital would _____.

- A) decrease by \$500,000
- B) increase by \$1,500,000
- C) increase by \$2,000,000
- D) experience no change

Answer: <https://biology-forums.com/index.php?topic=576845>

Question 1960

Preemptive rights allow existing shareholders to maintain voting control and protect themselves against the dilution of their ownership.

Answer: <https://biology-forums.com/index.php?topic=576232>

Question 1961

Holders of equity have claims on both income and assets that are secondary to the claims of creditors.

Answer: <https://biology-forums.com/index.php?topic=576163>

Question 1962

Dividends in arrears that must be paid to the preferred stockholders before payment of dividends to common stockholders are _____.

- A) cumulative
- B) nonparticipating
- C) participating
- D) convertible

Answer: <https://biology-forums.com/index.php?topic=576213>

Question 1963

Many holders of convertible bonds will not convert when the firm's common stock price exceeds the conversion price. To protect itself against this behavior, the firm includes a _____ on the convertible security.

- A) warrant
- B) option
- C) call feature
- D) striking price

Answer: <https://biology-forums.com/index.php?topic=577847>

Question 1964

Under a line of credit agreement, a bank may require an annual cleanup, which means that the borrower must pay off all its outstanding debts to all its operational creditors for a certain number of days during the year.

Answer: <https://biology-forums.com/index.php?topic=577640>

Question 1965

The annual percentage rate (APR) is the nominal rate of interest, found by multiplying the periodic rate by the number of periods in one year.

Answer: <https://biology-forums.com/index.php?topic=575848>

Question 1966

The balance sheet is a statement which balances a firm's assets (what it owns) against its debt (what it owes) or its equity (what is provided by owners).

Answer: <https://biology-forums.com/index.php?topic=575456>

Question 1967

Under a line of credit agreement, a bank may retain the right to revoke the line if any major changes occur in the firm's financial condition or operations.

Answer: <https://biology-forums.com/index.php?topic=577639>

Question 1968

What is the expected risk-free rate of return if Asset X, with a beta of 1.5, has an expected return of 20 percent, and the expected market return is 15 percent?

- A) 5.0%
- B) 7.5%
- C) 15.0%
- D) 22.5%

Answer: <https://biology-forums.com/index.php?topic=576528>

Question 1969

The purchaser of a convertible issue sacrifices a portion of his or her interest return _____.

- A) to raise temporarily cheap funds
- B) due to the reduced risk of default in the future
- C) when the call feature is exercised
- D) to become a common shareholder in the future

Answer: <https://biology-forums.com/index.php?topic=577849>

Question 1970

What is the current price of a \$1,000 par value bond maturing in 12 years with a coupon rate of 14 percent, paid semiannually, that has a YTM of 13 percent?

- A) \$604
- B) \$1,090
- C) \$1,060
- D) \$1,073

Answer: <https://biology-forums.com/index.php?topic=576159>

Question 1971

Under the judgmental approach for developing a pro forma balance sheet, the "plug" figure required to bring the statement into balance may be called the _____.

- A) cash balance
- B) retained earnings
- C) external financing required
- D) accounts receivable

Answer: <https://biology-forums.com/index.php?topic=575759>

Question 1972

The risk-adjusted discount rate approach to evaluating projects with unequal lives converts the net present value of unequal-lived, mutually exclusive projects into an equivalent annual amount.

Answer: <https://biology-forums.com/index.php?topic=576937>

Question 1973

How long would it take for you to save an adequate amount for retirement if you deposit \$40,000 per year into an account beginning today that pays 12 percent per year if you wish to have a total of \$1,000,000 at retirement?

- A) 12.2 years
- B) 10.5 years
- C) 14.8 years
- D) 11.5 years

Answer: <https://biology-forums.com/index.php?topic=575909>

Question 1974

The reason for a difference in the yield between a Aaa corporate bond and an otherwise identical Baa bond is the risk premium; other things being equal.

Answer: <https://biology-forums.com/index.php?topic=575961>

Question 1975

The attempt by a nonmanagement group to gain control of the management of a firm by soliciting a sufficient number of proxy votes is called a _____.

- A) hostile takeover

- B) bankruptcy proceeding
- C) proxy battle
- D) management buyout

Answer: <https://biology-forums.com/index.php?topic=576254>

Question 1976

Jia's Apple Farm uses 35 baskets each day to pack apples for shipping. It takes 5 days to receive a shipment of baskets after an order is placed and she would like a safety stock of 3 days in inventory. At what level of inventory should Jia's place an order for baskets?

Answer: <https://biology-forums.com/index.php?topic=577441>

Question 1977

A firm has had the following earnings history over the last five years:

If the firm's dividend policy was based on a constant payout ratio of 50 percent for all of the years with earnings over \$1.50 per share and a zero payout otherwise, the annual dividends for 2012 and 2015 were _____.

- A) \$0.50 and \$1.25, respectively
- B) \$0 and \$2.00, respectively
- C) \$0 and \$1.25, respectively
- D) \$0 and \$0.88, respectively

Answer: <https://biology-forums.com/index.php?topic=577255>

Question 1978

_____ is a term used to describe the magnification of risk and return introduced through the use of fixed-cost financing, such as preferred stock and debt.

- A) Financial leverage
- B) Operating leverage
- C) Fixed-payment coverage
- D) Benchmarking

Answer: <https://biology-forums.com/index.php?topic=575586>

Question 1979

Secured short-term financing has specific assets pledged as collateral.

Answer: <https://biology-forums.com/index.php?topic=577710>

Question 1980

What is the expected return for Asset X if it has a beta of 1.5, the expected market return is 15 percent, and the expected risk-free rate is 5 percent?

- A) 5.0%
- B) 7.5%
- C) 15.0%
- D) 20.0%

Answer: <https://biology-forums.com/index.php?topic=576529>

Question 1981

For firms with high fixed costs, the percent-of-sales approach for preparing a pro forma income statement tends to _____.

- A) overestimate profits when sales are increasing
- B) underestimate profits when sales are increasing
- C) underestimate profits when assets are increasing
- D) overestimate profits when assets are increasing

Answer: <https://biology-forums.com/index.php?topic=575757>

Question 1982

Institutional investors are professional investors who work on behalf of individuals, business, and government.

Answer: <https://biology-forums.com/index.php?topic=575323>

Question 1983

The level of risk associated with a given cash flow positively affects its value.

Answer: <https://biology-forums.com/index.php?topic=576101>

Question 1984

The liquidity preference theory suggests that for any given issuer, long-term interest rates tend to be higher than short-term rates due to the lower

liquidity and higher responsiveness to general interest rate movements of longer-term securities; this causes the yield curve to be upward-sloping.

Answer: <https://biology-forums.com/index.php?topic=575959>

Question 1985

If we assume that EBIT is constant, the value of a firm is maximized by minimizing the weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=577131>

Question 1986

The cost of capital is the rate of return a firm must earn on investments in order to increase the firm's value.

Answer: <https://biology-forums.com/index.php?topic=576537>

Question 1987

A(n) _____ yield curve reflects higher expected future rates of interest.

- A) upward-sloping
- B) flat
- C) downward-sloping
- D) linear

Answer: <https://biology-forums.com/index.php?topic=575974>

Question 1988

At year end, Tangshan China Company balance sheet showed total assets of \$60 million, total liabilities (including preferred stock) of \$45 million, and 1,000,000 shares of common stock outstanding. Based on this information, Tangshan's book value per share of common stock is _____.

- A) \$105
- B) \$10.50
- C) \$15
- D) \$150

Answer: <https://biology-forums.com/index.php?topic=576333>

Question 1989

The stock repurchase can be viewed as a cash dividend.

Answer: <https://biology-forums.com/index.php?topic=577279>

Question 1990

If the P/E paid for a target company is less than the P/E of the acquiring company, the effect on the earnings per share of the acquiring company will be _____.

- A) positive
- B) neutral
- C) negative
- D) uncorrelated

Answer: <https://biology-forums.com/index.php?topic=578078>

Question 1991

In case of international capital budgeting, a U.S. company can minimize its political risk by creating a joint venture with a competent and well-connected local partner.

Answer: <https://biology-forums.com/index.php?topic=576905>

Question 1992

The IRR method assumes the cash flows are reinvested at the internal rate of return rather than the required rate of return.

Answer: <https://biology-forums.com/index.php?topic=576777>

Question 1993

Which of the following is the responsibility of a finance manager?

- A) processing purchase orders and invoices
- B) ensuring accounts payable are paid on time
- C) preparing the monthly income statement
- D) analyzing the capital needs of the firm

Answer: <https://biology-forums.com/index.php?topic=575300>

Question 1994

Greater control over the acquisition of new materials or the distribution of finished goods is an economic benefit of horizontal merger.

Answer: <https://biology-forums.com/index.php?topic=577972>

Question 1995

Pledges of accounts receivable are made on _____ basis, respectively.

- A) a nonrecourse and a notification
- B) a nonnotification and a notification
- C) a notification and a recourse
- D) a notification and a nonrecourse

Answer: <https://biology-forums.com/index.php?topic=577741>

Question 1996

The higher yields on Eurodollar deposits compared with nearly all other marketable securities, governmental or nongovernmental, with similar maturities are attributable to (1) the fact that the depository banks are generally less closely regulated than U.S. banks and are therefore more risky, and (2) some foreign exchange risk may be present.

Answer: <https://biology-forums.com/index.php?topic=577539>

Question 1997

Restrictive covenants place operating and financial constraints on the borrower.

Answer: <https://biology-forums.com/index.php?topic=576008>

Question 1998

The actual ratio of exchange in a stock-exchange acquisition is the ratio of the _____.

- A) amount paid per share of the target company to the per share book value of the acquiring firm
- B) book value per share of the target company to the per share market price of the acquiring firm
- C) market value per share of the target company to the earnings per share of the acquiring firm
- D) amount paid per share of the target company to the per share market price of the acquiring firm

Answer: <https://biology-forums.com/index.php?topic=578070>

Question 1999

A _____ results from the combination of firms in the same line of business.

- A) congeneric merger
- B) conglomerate diversification
- C) horizontal merger
- D) hostile takeover

Answer: <https://biology-forums.com/index.php?topic=578004>

Question 2000

Collateral is typically required for a _____.

- A) secured short-term loan
- B) line of credit
- C) short-term, self-liquidating loan
- D) single-payment note

Answer: <https://biology-forums.com/index.php?topic=577731>

Question 2001

A _____ ratio is commonly used to assess owners' appraisal of the share value.

- A) debt
- B) price/earnings
- C) return on equity
- D) return on total assets

Answer: <https://biology-forums.com/index.php?topic=575603>

Question 2002

A bond will sell at a premium when its required return rises above its coupon interest rate.

Answer: <https://biology-forums.com/index.php?topic=576120>

Question 2003

A firm has interest expense of \$145,000, preferred dividends of \$25,000, and a tax rate of 40 percent. The firm's financial breakeven point is _____.

- A) \$ 25,000
- B) \$170,000
- C) \$186,667
- D) \$145,000

Answer: <https://biology-forums.com/index.php?topic=577156>

Question 2004

Since the sales price per unit generally decreases with volume and the cost per unit generally increases with volume, the true breakeven point may be different from those obtained using linear revenue and cost functions as assumed in the breakeven analysis.

Answer: <https://biology-forums.com/index.php?topic=576978>

Question 2005

FASB No. 52 is a statement issued by the Financial Accounting Standards Board requiring American MNCs to first convert the financial statement accounts of foreign subsidiaries into the country's functional currency and then translate the accounts into the parent firm's currency using the _____ method.

- A) historical rate
- B) all-current-rate
- C) average rate
- D) weighted average

Answer: <https://biology-forums.com/index.php?topic=578182>

Question 2006

When evaluating a capital budgeting project, installation costs of a new machine must be considered as part of _____.

- A) the operating cash inflows
- B) the initial investment
- C) the incremental operating cash inflows
- D) the operating cash outflows

Answer: <https://biology-forums.com/index.php?topic=576840>

Question 2007

_____ reflects the return that must be earned on the given project to compensate the firm's owners adequately.

- A) Internal rate of return
- B) Cost of capital
- C) Risk-adjusted discount rate
- D) Average rate of return

Answer: <https://biology-forums.com/index.php?topic=576930>

Question 2008

A firm's dividend payout ratio is calculated by _____.

- A) dividing cash dividend per share by its earnings per share
- B) dividing earnings per share by its cash dividend per share
- C) dividing cash dividend per share by its net income
- D) dividing net income by its cash dividend per share

Answer: <https://biology-forums.com/index.php?topic=577254>

Question 2009

Preferred stock is characterized by _____.

- A) voting rights
- B) maturity date
- C) quasi-debt nature
- D) preemptive rights

Answer: <https://biology-forums.com/index.php?topic=576218>

Question 2010

Holding all other factors constant, a firm that is subject to a greater level of business risk should employ less operating leverage than an otherwise

equivalent firm that is subject to a lesser level of business risk.

Answer: <https://biology-forums.com/index.php?topic=577093>

Question 2011

Using the data from Table 8.3, what is the portfolio expected return and the portfolio beta if you invest 35 percent in X, 45 percent in Y, and 20 percent in the risk-free asset?

- A) 12.5%, 0.975
- B) 12.5%, 1.975
- C) 15.0%, 0.975
- D) 15.0%, 1.975

Answer: <https://biology-forums.com/index.php?topic=576498>

Question 2012

Which of the following is a reason for undertaking mergers?

- A) increasing dividends
- B) profit maximization
- C) easy process
- D) wealth maximization

Answer: <https://biology-forums.com/index.php?topic=577999>

Question 2013

_____ is the risk of being unable to cover operating costs of a firm.

- A) Systematic risk
- B) Business risk
- C) Financial risk
- D) Diversifiable risk

Answer: <https://biology-forums.com/index.php?topic=577110>

Question 2014

Upward-sloping yield curves result from higher future inflation expectations, lender preferences for shorter maturity loans, and greater supply of short-term as opposed to long-term loans relative to their respective demand.

Answer: <https://biology-forums.com/index.php?topic=575949>

Question 2015

A proxy battle is the attempt by _____.

- A) the creditors of a bankrupt corporation to seize assets of the corporation
- B) the management to dismiss the board of directors for their incapability to manage the operations
- C) a nonmanagement group to unseat the existing management and gain control of the firm
- D) the employees to form trade unions to influence decisions on behalf of members

Answer: <https://biology-forums.com/index.php?topic=576253>

Question 2016

_____ refers to the effects that fixed costs have on the returns that shareholders earn.

- A) Purchase power parity
- B) Leverage
- C) Business risk
- D) Pecking order theory

Answer: <https://biology-forums.com/index.php?topic=576985>

Question 2017

Dividends received by a corporation on an investment in the common and preferred stock of another corporation, where ownership in the dividend paying corporation is less than 20%, is subject to 70 percent exclusion for tax purposes.

Answer: <https://biology-forums.com/index.php?topic=575421>

Question 2018

Which of the following is true of a credit applicant's character?

- A) It reflects a credit applicant's ability to repay his debt obligation.
- B) It reflects a credit applicant's past payment history.
- C) It reflects the level of liquid assets available with a credit applicant.

D) It reflects any unique conditions surrounding a credit applicant's transaction.

Answer: <https://biology-forums.com/index.php?topic=577475>

Question 2019

In an inefficient market, stock prices adjust quickly to new public information.

Answer: <https://biology-forums.com/index.php?topic=576276>

Question 2020

Because equityholders are the last to receive any distribution of assets as a result of bankruptcy proceedings, they expect _____.

- A) fixed dividend payments
- B) greater returns from their investment in the firm's stock
- C) all profits to be paid out in dividends
- D) warrants to be attached to the stock issue

Answer: <https://biology-forums.com/index.php?topic=576170>

Question 2021

Most firms seeking merger partners will hire the services of a(n) _____.

- A) commercial banker
- B) investment broker
- C) private contractor
- D) investment banker

Answer: <https://biology-forums.com/index.php?topic=578100>

Question 2022

The primary source of secured short-term loans to businesses are _____.

- A) commercial banks and commercial finance companies
- B) lines of credit and revolving lines of credit
- C) commercial paper dealers and investment bankers
- D) life insurance companies and government securities brokers

Answer: <https://biology-forums.com/index.php?topic=577740>

Question 2023

In the valuation process, the higher the risk, the greater is the required return.

Answer: <https://biology-forums.com/index.php?topic=576100>

Question 2024

By efficiently managing a firm's operating and cash conversion cycles, the financial manager can maintain a high level of cash investment and thereby contribute toward maximization of share value.

Answer: <https://biology-forums.com/index.php?topic=577324>

Question 2025

What would be the cost of retained earnings equity for Tangshan Mining if the expected return on U.S. Treasury Bills is 5.00%, the market risk premium is 10.00 percent, and the firm's beta is 1.3?

- A) 11.5%
- B) 18.0%
- C) 10.0%
- D) 19.5%

Answer: <https://biology-forums.com/index.php?topic=576633>

Question 2026

The IRR is the compounded annual rate of return that a firm will earn if it invests in a project and receives the estimated cash inflows.

Answer: <https://biology-forums.com/index.php?topic=576763>

Question 2027

In a 2-for-1 stock split, the number of shares outstanding decreases by fifty percent and the stock's per share par value will double.

Answer: <https://biology-forums.com/index.php?topic=577281>

Question 2028

The effect of exercising a warrant on a firm's capital structure _____.

- A) reduces leverage less than a converting a convertible security
- B) increases leverage as much as a converting a convertible security
- C) reduces leverage more than a converting a convertible security
- D) is unrelated to a converting a convertible security

Answer: <https://biology-forums.com/index.php?topic=577907>

Question 2029

If an investor buys a 100-share call option for \$325 with an exercise price of \$15 and the underlying price per share of the stock at expiration is \$13, what is the amount of profit or loss, ignoring brokerage fees?

- A) There would be a profit of \$525.
- B) There would be a loss of \$125.
- C) There would be a loss of \$325.
- D) There would be a loss of \$525.

Answer: <https://biology-forums.com/index.php?topic=577938>

Question 2030

Dilution of ownership occurs when a new stock issue results in each present stockholder having a larger number of shares and, thus, a claim to a larger part of the firm's earnings than previously.

Answer: <https://biology-forums.com/index.php?topic=576236>

Question 2031

A firm has an operating cycle of 120 days, an average collection period of 40 days, and an average payment period of 30 days. The firm's average age of inventory is _____ days.

- A) 80
- B) 50
- C) 90
- D) 70

Answer: <https://biology-forums.com/index.php?topic=577350>

Question 2032

When making replacement decisions, the development of relevant cash flows is complicated when compared to expansion decisions, due to the need to calculate _____ cash inflows.

- A) conventional
- B) opportunity
- C) incremental
- D) sunk

Answer: <https://biology-forums.com/index.php?topic=576826>

Question 2033

The final step in the capital budgeting process is _____.

- A) implementation
- B) follow-up
- C) review and analysis
- D) decision making

Answer: <https://biology-forums.com/index.php?topic=576692>

Question 2034

Agency problem arises when managers deviate from the goal of maximization of shareholder wealth by placing their personal goals ahead of the goals of shareholders.

Answer: <https://biology-forums.com/index.php?topic=575327>

Question 2035

Notes payable are either spontaneous secured or spontaneous unsecured financing and result from the normal operations of a firm.

Answer: <https://biology-forums.com/index.php?topic=577585>

Question 2036

An investment advisor has recommended a \$50,000 portfolio containing assets R, J, and K; \$25,000 will be invested in asset R, with an expected annual return of 12 percent; \$10,000 will be invested in asset J, with an expected annual return of 18 percent; and \$15,000 will be invested in asset K,

with an expected annual return of 8 percent. The expected annual return of this portfolio is _____.

- A) 12.67%
- B) 12.00%
- C) 10.00%
- D) 11.78%

Answer: <https://biology-forums.com/index.php?topic=576426>

Question 2037

Cash outlays that had been previously made and have no effect on the cash flows relevant to a current decision are called _____.

- A) incremental historical costs
- B) incremental past expenses
- C) opportunity costs foregone
- D) sunk costs

Answer: <https://biology-forums.com/index.php?topic=576828>

Question 2038

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Previous Edition

AACSB Tag: Analytic Skills

3) One of the responsibilities of a debtor in possession (DIP) is the liquidation of a bankrupt firm's assets.

Answer: <https://biology-forums.com/index.php?topic=578134>

Question 2039

The dividend payment date is set by a firm's board of directors and represents the actual date on which the firm mails the dividend payment to the holders of record.

Answer: <https://biology-forums.com/index.php?topic=577171>

Question 2040

The modified DuPont formula relates the firm's return on total assets (ROA) to its _____.

- A) return on equity (ROE)
- B) operating leverage multiplier
- C) net profit margin
- D) total asset turnover

Answer: <https://biology-forums.com/index.php?topic=575613>

Question 2041

Which of the following is true of current ratio?

- A) The more predictable a firm's cash flows, the higher the acceptable current ratio.
- B) A higher current ratio indicates a higher return on equity.
- C) The more predictable a firm's current ratio, the higher the current liabilities.
- D) A higher current ratio indicates a greater degree of liquidity.

Answer: <https://biology-forums.com/index.php?topic=575561>

Question 2042

A \$60,000 outlay for a new machine with a usable life of 15 years is called _____.

- A) capital expenditure
- B) financing expenditure
- C) replacement expenditure
- D) operating expenditure

Answer: <https://biology-forums.com/index.php?topic=576687>

Question 2043

There is an inverse relationship between the quality or rating of a bond and the rate of return it must provide bondholders.

Answer: <https://biology-forums.com/index.php?topic=576046>

Question 2044

Corporate bonds have a _____.

- A) face value of \$5,000

- B) market price of \$1,000
- C) specified coupon rate paid annually
- D) par value of \$1,000

Answer: <https://biology-forums.com/index.php?topic=576122>

Question 2045

The basic strategies for determining the appropriate financing mix are _____.

- A) seasonal and permanent funding
- B) short-term and long-term financing
- C) aggressive and conservative funding
- D) current and non-current liabilities

Answer: <https://biology-forums.com/index.php?topic=577401>

Question 2046

The inclusion of assets from countries that are less sensitive to the U.S. business cycle reduces the portfolio's responsiveness to market movement and to foreign currency fluctuation.

Answer: <https://biology-forums.com/index.php?topic=576445>

Question 2047

Due to inflationary effects, inventory costs and depreciation write-offs can differ from their true values, thereby distorting profits.

Answer: <https://biology-forums.com/index.php?topic=575518>

Question 2048

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Revised

AACSB Tag: Analytic Skills

9) The responsibilities of a debtor in possession include _____.

- A) repurchase of equity from open market
- B) change in operational activities
- C) change in management
- D) recommending a recapitalization plan

Answer: <https://biology-forums.com/index.php?topic=578141>

Question 2049

According to the residual theory of dividends, if a firm's equity need exceeds the amount of retained earnings, the firm would _____.

- A) borrow to pay the cash dividend
- B) sell additional stock to pay the cash dividend
- C) pay no cash dividends
- D) pay less dividends

Answer: <https://biology-forums.com/index.php?topic=577215>

Question 2050

A firm's operating breakeven point is the point at which _____.

- A) total operating costs equal total fixed costs
- B) total operating costs are zero
- C) EBIT is less than sales
- D) EBIT is zero

Answer: <https://biology-forums.com/index.php?topic=576999>

Question 2051

If a market is truly efficient, investors should not waste their time trying to find and capitalize on mispriced securities.

Answer: <https://biology-forums.com/index.php?topic=576283>

Question 2052

A significant portion of the return on a zero coupon bond is in the form of _____.

- A) interest and gain in value
- B) interest
- C) gain in value

D) tax reduction

Answer: <https://biology-forums.com/index.php?topic=576088>

Question 2053

An appropriate collateral for a secured short-term loan is _____.

- A) fixed assets
- B) accounts receivables
- C) common stock in a privately-held corporation
- D) bank over-draft

Answer: <https://biology-forums.com/index.php?topic=577732>

Question 2054

Thelma is planning for her son's college education to begin five years from today. She estimates the yearly tuition, books, and living expenses to be \$5,000 per year for a four-year degree, assuming the expenses incur only at the end of the year. How much must Thelma deposit today, at an interest rate of 8 percent, for her son to be able to withdraw \$5,000 per year for four years of college?

- A) \$20,000
- B) \$13,620
- C) \$39,520
- D) \$11,270

Answer: <https://biology-forums.com/index.php?topic=575901>

Question 2055

The difference between the return on the market portfolio of assets and the risk-free rate of return represents the premium the investor must receive for taking the average amount of risk associated with holding the market portfolio of assets.

Answer: <https://biology-forums.com/index.php?topic=576503>

Question 2056

A single-payment note generally has a maturity of _____.

- A) 30 days to 9 months or more
- B) 10 to 12 months or more
- C) 12 to 24 months or more
- D) 10 to 24 months or more

Answer: <https://biology-forums.com/index.php?topic=577663>

Question 2057

Maxi, Inc. is evaluating the acquisition of Mini, Inc., which had a loss carryforward of \$2.75 million which resulted from earlier operations. Maxi can purchase Mini for \$3.5 million and liquidate the assets for \$1.25 million. Maxi expects earnings before taxes in the three years following the acquisition to be as follows:

(These earnings are assumed to fall within the limit legally allowed for application of a tax loss carryforward resulting from the proposed acquisition.)

Maxi has a 40 percent tax rate and a cost of capital of 10 percent. The total present value of tax advantage of the acquisition in the following three years is _____.

- A) \$440,374
- B) \$842,374
- C) \$1.1 million
- D) \$2.75 million

Answer: <https://biology-forums.com/index.php?topic=578065>

Question 2058

A hostile merger is accomplished through _____.

- A) a cash purchase of stock
- B) leveraged buyouts
- C) a tender offer
- D) divestitures

Answer: <https://biology-forums.com/index.php?topic=577993>

Question 2059

On a purely theoretical basis, IRR is the better approach to capital budgeting than NPV because IRR implicitly assumes that any intermediate cash inflows generated by an investment are reinvested at the firm's cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576790>

Question 2060

The key inputs to the valuation process include _____.

- A) returns and risk
- B) cash flow, cash flow timing, and risk
- C) cash flows and discount rate
- D) returns, discount rate, and risk

Answer: <https://biology-forums.com/index.php?topic=576105>

Question 2061

The primary purpose in preparing a cash budget is _____.

- A) to evaluate the intrinsic value of a financial assets
- B) to estimate a firm's short-term cash requirements
- C) for risk analysis
- D) to estimate sales

Answer: <https://biology-forums.com/index.php?topic=575712>

Question 2062

Other factors remaining constant, a decrease in the average age of inventory will result in _____.

- A) a decrease in the average collection period
- B) a decrease in the cash conversion cycle
- C) an increase in the cash conversion cycle
- D) an increase in the average collection period

Answer: <https://biology-forums.com/index.php?topic=577363>

Question 2063

Tangshan Mining Company is considering investing in a new mining project. The firm's cost of capital is 12 percent and the project is expected to have an initial after-tax cost of \$5,000,000. Furthermore, the project is expected to provide after-tax operating cash flows of \$2,500,000 in year 1, \$2,300,000 in year 2, \$2,200,000 in year 3, and (\$1,300,000) in year 4?

- (a) Calculate the project's NPV.
- (b) Calculate the project's IRR.
- (c) Should the firm make the investment?

Answer: <https://biology-forums.com/index.php?topic=576782>

Question 2064

In evaluating a proposed project, incremental operating cash inflows are relevant cash flows.

Answer: <https://biology-forums.com/index.php?topic=576874>

Question 2065

A two-tier offer is a tender offer in which the terms offered are more attractive to those who tender shares early.

Answer: <https://biology-forums.com/index.php?topic=578084>

Question 2066

The wealth of corporate owners is measured by the share price of the stock.

Answer: <https://biology-forums.com/index.php?topic=575247>

Question 2067

A cash budget gives the financial manager a clear view of the timing of a firm's expected profitability over a given period.

Answer: <https://biology-forums.com/index.php?topic=575716>

Question 2068

A company's _____ are the procedures followed to collect accounts receivable when they come due.

- A) collection policies
- B) credit scorings
- C) credit policies
- D) credit analysis

Answer: <https://biology-forums.com/index.php?topic=577497>

Question 2069

The true owner(s) of the corporation is (are) the _____.

- A) board of directors
- B) chief executive officer
- C) stockholders
- D) creditors

Answer: <https://biology-forums.com/index.php?topic=575334>

Question 2070

Chapter 7 of the Bankruptcy Reform Act of 1978 outlines the procedures for reorganizing a failed (or failing) firm, whether its petition is filed voluntarily or involuntarily.

Answer: <https://biology-forums.com/index.php?topic=578131>

Question 2071

The target capital structure is the desired optimal mix of debt and equity financing that most firms attempt to achieve and maintain.

Answer: <https://biology-forums.com/index.php?topic=576536>

Question 2072

The cost of common stock equity may be measured using either the constant-growth valuation model or the capital asset pricing model.

Answer: <https://biology-forums.com/index.php?topic=576593>

Question 2073

A firm with a low net profit margin can improve its return on total assets by _____.

- A) increasing its debt ratio
- B) increasing its total asset turnover
- C) decreasing its fixed asset turnover
- D) decreasing its total asset turnover

Answer: <https://biology-forums.com/index.php?topic=575615>

Question 2074

The DuPont formula allows a firm to break down its return into the net profit margin, which measures the firm's profitability on sales, and its total asset turnover, which indicates how efficiently the firm has used its assets to generate sales.

Answer: <https://biology-forums.com/index.php?topic=575608>

Question 2075

The beta associated with a risk-free asset _____.

- A) is greater than 1
- B) is less than 1
- C) is equal to 0
- D) is between 0 and 1

Answer: <https://biology-forums.com/index.php?topic=576478>

Question 2076

Yield to call represents the rate of return that investors earn if they buy a callable bond at a specific price and hold it until it is called back and they receive the call price, which would be set above the bond's par value.

Answer: <https://biology-forums.com/index.php?topic=576152>

Question 2077

Cross-sectional ratio analysis is used to _____.

- A) correct expected problems in operations
- B) isolate the causes of problems
- C) provide conclusive evidence of the existence of a problem
- D) measure relative performance of a firm with its peers

Answer: <https://biology-forums.com/index.php?topic=575532>

Question 2078

A firm that has a large percentage of _____ investors may pay out a lower percentage of its earnings as dividends.

- A) wealthy
- B) domestic
- C) middle-income
- D) international

Answer: <https://biology-forums.com/index.php?topic=577245>

Question 2079

The financial decision makers find NPV more intuitive because it measures benefits relative to the amount invested.

Answer: <https://biology-forums.com/index.php?topic=576797>

Question 2080

Restrictive covenants are contractual clauses in long-term debt agreements that place certain operating and financial constraints on the borrower.

Answer: <https://biology-forums.com/index.php?topic=575999>

Question 2081

A firm has arranged for a lockbox system to reduce collection time of accounts receivable. Currently the firm has an average collection period of 43 days, an average age of inventory of 50 days, and an average payment period of 10 days. The lockbox system will reduce the average collection period by 3 days by reducing processing, mail, and clearing float. The firm has total annual outlays of \$15,000,000 and currently pays 9 percent for its financing. (Assume a 360-day year.)

- (a) Calculate the cash conversion cycle before and after the lockbox system.
- (b) Calculate the savings in financing costs from the lockbox system.

Answer: <https://biology-forums.com/index.php?topic=577407>

Question 2082

A firm with a cash conversion cycle of 175 days wants to stretch its average payment period from 30 days to 45 days. This will result in a(n) _____ in the cash conversion cycle of _____ days.

- A) increase; 15
- B) decrease; 15
- C) increase; 45
- D) decrease; 45

Answer: <https://biology-forums.com/index.php?topic=577385>

Question 2083

The constant growth model is an approach to dividend valuation that assumes a constant future dividend.

Answer: <https://biology-forums.com/index.php?topic=576285>

Question 2084

In order to recognize the interrelationship between financing and investments, a firm should use _____ when evaluating an investment.

- A) the least costly source of financing
- B) the most costly source of financing
- C) the weighted average cost of all financing sources
- D) the current opportunity cost

Answer: <https://biology-forums.com/index.php?topic=576553>

Question 2085

Too much investment in current assets reduces firm's profitability, whereas too little investment in current assets increases the risk of not being able to pay debts as they come due.

Answer: <https://biology-forums.com/index.php?topic=577303>

Question 2086

Which of the following is considered in designing a dividend policy that is favorable to wealthy owners?

- A) the tax status of the firm's owners
- B) the political risk of the firm
- C) the liability of the firm's owners
- D) the reinvestment risk of the firm

Answer: <https://biology-forums.com/index.php?topic=577244>

Question 2087

Under MACRS, an asset which originally cost \$100,000, incurred installation costs of \$10,000, and has an estimated salvage value of \$25,000, is

being depreciated using a 5-year normal recovery period. What is the depreciation expense in year 1?

- A) \$15,000
- B) \$12,750
- C) \$11,250
- D) \$22,000

Answer: <https://biology-forums.com/index.php?topic=575642>

Question 2088

An increase in the current liabilities to total assets ratio will result in _____.

- A) an increase in risk
- B) a decrease in risk
- C) an increase in profit
- D) a decrease in profit

Answer: <https://biology-forums.com/index.php?topic=577376>

Question 2089

Hayley makes annual end-of-year payments of \$6,260.96 on a five-year loan with an 8 percent interest rate. The original principal amount was _____.

- A) \$31,000
- B) \$30,000
- C) \$25,000
- D) \$20,000

Answer: <https://biology-forums.com/index.php?topic=575885>

Question 2090

In defending against a hostile takeover, the strategy involving the payment of a large, debt-financed, cash dividend is the _____ strategy.

- A) shark repellent
- B) golden parachute
- C) leveraged recapitalization
- D) dividend restructuring

Answer: <https://biology-forums.com/index.php?topic=578104>

Question 2091

Angel recently purchased a block of 100 shares of Hayley's Optical common stock for \$6,000. The stock is expected to provide an annual cash flow of dividends of \$400 indefinitely. Assuming a discount rate of 8 percent, how does the price Angel paid compare to the value of the stock?

Answer: <https://biology-forums.com/index.php?topic=576317>

Question 2092

Total leverage measures the effect of fixed costs on the relationship between _____.

- A) sales and EBIT
- B) sales and EPS
- C) EBIT and EPS
- D) EBIT and dividend

Answer: <https://biology-forums.com/index.php?topic=577058>

Question 2093

Bessey Aviation has just sold an issue of 30-day commercial paper with a face value of \$5,000,000. The firm has just received \$4,958,000. What is the effective annual interest rate on the commercial paper?

Answer: <https://biology-forums.com/index.php?topic=577708>

Question 2094

If an investor buys a 100-share call option for \$300 with an exercise price of \$30 and the underlying price per share of the stock at expiration is \$32, what is the amount of profit or loss, ignoring brokerage fees?

- A) There would be a profit of \$200.
- B) There would be a profit of \$100.
- C) There would be a loss of \$100.
- D) There would be a loss of \$300.

Answer: <https://biology-forums.com/index.php?topic=577935>

Question 2095

A firm is selling an existing asset for \$5,000. The asset, when purchased, cost \$10,000, was being depreciated under MACRS using a five-year recovery period and has been depreciated for four full years. If the assumed tax rate is 40 percent on ordinary income and capital gains, the tax effect of this transaction is _____.

- A) \$0 tax liability
- B) \$1,320 tax liability
- C) \$1,160 tax liability
- D) \$2,000 tax benefit

Answer: <https://biology-forums.com/index.php?topic=576865>

Question 2096

Which of the following is true of par value of a common stock?

- A) It is determined on the basis of the stock's market value.
- B) It is an arbitrary value established for legal purposes in a firm's corporate charter.
- C) It indicates the market value at which the stock was originally sold.
- D) It allows stockholders to purchase additional shares at a price below the market price.

Answer: <https://biology-forums.com/index.php?topic=576255>

Question 2097

Because preferred stock is a form of ownership and has no maturity date, its claims on income and assets are secondary to those of the firm's creditors.

Answer: <https://biology-forums.com/index.php?topic=576197>

Question 2098

Which of the following basic variables must be considered in determining the initial investment associated with a capital expenditure?

- A) incremental annual savings produced by the new asset
- B) cash flows generated by the new investment
- C) proceeds from the sale of an existing asset
- D) profits on the sale of an existing asset

Answer: <https://biology-forums.com/index.php?topic=576838>

Question 2099

Unlike the spontaneous sources of unsecured short-term financing, bank loans are negotiated and result from deliberate actions taken by the financial manager.

Answer: <https://biology-forums.com/index.php?topic=577625>

Question 2100

A financial institution is an intermediary that channels the savings of individuals, businesses, and governments into loans or investments.

Answer: <https://biology-forums.com/index.php?topic=575346>

Question 2101

Calculate the future value of an annuity of \$5,000 each year for eight years, deposited at 6 percent.

Answer: <https://biology-forums.com/index.php?topic=575821>

Question 2102

Sunshine Corporation had a retained earnings balance of \$850,000 at the beginning of 2015. By the end of 2015, the company's retained earnings balance stood at \$950,000. During 2015, the company earned \$245,000 as net profits after paying its taxes. The company was then able to pay its preferred stockholders a sum of \$45,000. Compute the common stock dividend per share in 2015 assuming 10,000 shares of common stock outstanding.

Answer: <https://biology-forums.com/index.php?topic=575507>

Question 2103

Apex Inc. issues a bond of \$1,000 which pays interest semiannually at a coupon interest rate of 8%. The maturity of the bond is 15 years. Where should this bond be traded?

- A) forex market
- B) money market
- C) capital market
- D) commodities market

Answer: <https://biology-forums.com/index.php?topic=575397>

Question 2104

The problem with the regular dividend policy from a firm's perspective is that _____.

- A) it regularly pays dividends which fluctuate with earnings
- B) if the firm's earnings drop, the dividends may be low
- C) even when earnings are low, the company must pay a fixed dividend
- D) it increases the shareholders' uncertainty

Answer: <https://biology-forums.com/index.php?topic=577258>

Question 2105

Aunt Tilly's Fur Company has been experiencing several years of financial difficulty and, thus, has considered maintaining its dividend payment at \$2.50 indefinitely. What is the value of its common stock if the required rate of return is 8.5 percent?

Answer: <https://biology-forums.com/index.php?topic=576310>

Question 2106

An applicant's capacity to repay its requested credit can be found by _____.

- A) analyzing financial statements
- B) checking bank account balances
- C) analyzing tax payment history
- D) checking the covenants

Answer: <https://biology-forums.com/index.php?topic=577479>

Question 2107

A firm has had the following earnings history over the last five years:

If the firm's dividend policy was to pay \$0.25 per share each period except when earnings exceed \$1.50, an extra dividend equal to 50 percent of the earnings above \$1.50 would be paid, the annual dividends for 2012 and 2015 were _____.

- A) \$0.25 and \$1.25, respectively
- B) \$0.25 and \$0.75, respectively
- C) \$0 and \$0.25, respectively
- D) \$0.25 and \$0.25, respectively

Answer: <https://biology-forums.com/index.php?topic=577263>

Question 2108

A congeneric merger is a merger combining firms in unrelated businesses.

Answer: <https://biology-forums.com/index.php?topic=577971>

Question 2109

Which of the following affects the slope of yield curve?

- A) tax rates
- B) dividend policy
- C) selection of accounting standards
- D) liquidity preferences

Answer: <https://biology-forums.com/index.php?topic=575994>

Question 2110

If the risk-free rate decreases due to a shift in government policy, the required return goes up.

Answer: <https://biology-forums.com/index.php?topic=576347>

Question 2111

Which of the following is true of collection float?

- A) It represents the time delay between when payment is placed in the mail and when it is received.
- B) It represents the time between receipt of a payment and its deposit into a firm's account.
- C) It results from the lapse between the time when a firm deducts a payment from its checking account ledger and the time when funds are actually withdrawn from its account.
- D) It results from the delay between the time when a customer deducts a payment from the checking account ledger and the time when the vendor actually receives the funds in a spendable form.

Answer: <https://biology-forums.com/index.php?topic=577549>

Question 2112

Find the present value of the following stream of a firm's cash flows, assuming that the firm's opportunity cost is 14 percent.

- A) \$131,068
- B) \$ 19,830
- C) \$ 14,850
- D) \$120,820

Answer: <https://biology-forums.com/index.php?topic=575842>

Question 2113

The _____ rate is typically the nominal rate of interest on a three-month U.S. Treasury bill.

- A) expected
- B) real
- C) risk-free
- D) premium

Answer: <https://biology-forums.com/index.php?topic=575967>

Question 2114

The NPV of a project is the difference between an investment's net operating profit after taxes and the cost of funds used to finance the investment, which is found by multiplying the dollar amount of the funds used to finance the investment by the firm's weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576749>

Question 2115

A _____ permits the firm to raise additional funds at some point in the future by selling common stock and thereby shifting the firm's capital structure to a less highly levered position.

- A) put option
- B) stock purchase warrant
- C) conversion feature
- D) repurchase agreement

Answer: <https://biology-forums.com/index.php?topic=577899>

Question 2116

A(n) _____ is issued with no or very low coupon and sells significantly below its par value.

- A) income bond
- B) zero or low coupon bond
- C) mortgage bond
- D) subordinated debenture

Answer: <https://biology-forums.com/index.php?topic=576077>

Question 2117

The EBIT-EPS analysis tends to concentrate on maximization of earnings rather than maximization of owners' wealth.

Answer: <https://biology-forums.com/index.php?topic=577144>

Question 2118

Based on the Table 6.1, what is the last yield for this bond?

- A) 11.0%
- B) 14.2%
- C) 16.8%
- D) 18.9%

Answer: <https://biology-forums.com/index.php?topic=576097>

Question 2119

On _____, the stated interest rate is adjusted periodically within stated limits in response to changes in specified money or capital market rates.

- A) a floating rate bond
- B) a zero coupon bond
- C) a mortgage bond
- D) an equipment trust certificate

Answer: <https://biology-forums.com/index.php?topic=576078>

Question 2120

Which of the following is one of the key activities of a financial manager?

- A) making financing decisions
- B) managing cost accounting
- C) managing financial accounting
- D) making legal policy decisions

Answer: <https://biology-forums.com/index.php?topic=575313>

Question 2121

Loans on which the interest is paid in advance are often called _____.

- A) premium loans
- B) long-term loans
- C) term deposits
- D) discount loans

Answer: <https://biology-forums.com/index.php?topic=577666>

Question 2122

Higher the coefficient of variation, the greater the risk and therefore the higher the expected return.

Answer: <https://biology-forums.com/index.php?topic=576393>

Question 2123

Generally, decreases in leverage result in increased return and risk, whereas increases in leverage result in decreased return and risk.

Answer: <https://biology-forums.com/index.php?topic=576954>

Question 2124

Which of the following is true of outstanding shares?

- A) A firm cannot sell more shares than the outstanding shares mentioned in the charter.
- B) Authorized shares become outstanding shares when they are issued or sold to investors.
- C) Outstanding shares are indicated in a firm's corporate charter.
- D) Outstanding shares are the shares repurchased by the firm.

Answer: <https://biology-forums.com/index.php?topic=576247>

Question 2125

A firm can accept a project with a net present value of zero because _____.

- A) the project would maintain the wealth of the firm's owners
- B) the project would enhance the wealth of the firm's owners
- C) the project would maintain the earnings of the firm
- D) the project would enhance the earnings of the firm

Answer: <https://biology-forums.com/index.php?topic=576752>

Question 2126

Eurocurrency deposits arise when a corporation or individual makes a deposit in a bank in a currency other than the local currency of the country where the bank is located.

Answer: <https://biology-forums.com/index.php?topic=575375>

Question 2127

Which asset would the risk-averse financial manager prefer? (See below.)

- A) Asset A
- B) Asset B
- C) Asset C
- D) Asset D

Answer: <https://biology-forums.com/index.php?topic=576406>

Question 2128

The _____ measures the activity, or liquidity, of a firm's stock of goods.

- A) average collection period
- B) inventory turnover ratio
- C) average payment period

D) total asset turnover ratio

Answer: <https://biology-forums.com/index.php?topic=575567>

Question 2129

Convertibles can normally be sold with lower interest rates than nonconvertibles.

Answer: <https://biology-forums.com/index.php?topic=577823>

Question 2130

A firm has a cash conversion cycle of 60 days and average payment period of 40 days. The firm's operating cycle is _____ days.

- A) 20
- B) 100
- C) 50
- D) 30

Answer: <https://biology-forums.com/index.php?topic=577367>

Question 2131

A beta coefficient of -1 represents an asset that _____.

- A) is more responsive than the market portfolio
- B) has the same response as the market portfolio but in opposite direction
- C) is less responsive than the market portfolio
- D) is unaffected by market movement

Answer: <https://biology-forums.com/index.php?topic=576476>

Question 2132

The accrual method recognizes revenue at the point of sale and recognizes expenses when incurred.

Answer: <https://biology-forums.com/index.php?topic=575285>

Question 2133

For normal probability distributions, 95 percent of the possible outcomes will lie between ± 1 standard deviation from the expected return.

Answer: <https://biology-forums.com/index.php?topic=576390>

Question 2134

A corporation has \$10,000,000 of 10 percent preferred stock outstanding and a 40 percent tax rate. The amount of earnings before interest and taxes (EBIT) required to pay the preferred dividends is _____.

- A) \$1,000,000
- B) \$400,000
- C) \$600,000
- D) \$1,666,667

Answer: <https://biology-forums.com/index.php?topic=577119>

Question 2135

_____ is the process of evaluating and selecting long-term investments that are consistent with a firm's goal of maximizing owners' wealth.

- A) Recapitalizing assets
- B) Capital budgeting
- C) Ratio analysis
- D) Securitization

Answer: <https://biology-forums.com/index.php?topic=576686>

Question 2136

Smith Corporation's common stock is expected to pay a dividend of \$3.00 forever and currently sells for \$21.42. What is the required rate of return?

- A) 10%
- B) 12%
- C) 13%
- D) 14%

Answer: <https://biology-forums.com/index.php?topic=576301>

Question 2137

Short-term financial management is concerned with management of a firm's current assets and current liabilities to achieve a balance between profitability and risk.

Answer: <https://biology-forums.com/index.php?topic=577293>

Question 2138

The pledging cost of accounts receivable is normally 2 to 5 percent above the prime rate.

Answer: <https://biology-forums.com/index.php?topic=577725>

Question 2139

If the cash discount period is increased, a firm's investment in accounts receivable is expected to _____.

- A) increase because new customers attracted by the new policy will result in new accounts receivable
- B) decrease because new customers will doubt the quality of product due to increase in discount
- C) increase because existing discount takers will pay more to get more discount
- D) decrease because of existing discount takers will now pay earlier to avail the cash discount

Answer: <https://biology-forums.com/index.php?topic=577506>

Question 2140

The McCain-Feingold Act of 2002 was passed to eliminate many of the disclosure and conflict-of-interest problems of corporations.

Answer: <https://biology-forums.com/index.php?topic=575444>

Question 2141

Asset A was purchased six months ago for \$25,000 and has generated \$1,500 cash flow during that period. What is the asset's rate of return if it can be sold for \$26,750 today?

Answer: <https://biology-forums.com/index.php?topic=576376>

Question 2142

Float exists when a payee has received funds in a spendable form but these funds have not been withdrawn from the account of the payer.

Answer: <https://biology-forums.com/index.php?topic=577513>

Question 2143

Which of the following acts regulates the secondary market ?

- A) The Securities Act of 1933
- B) The Gramm-Leach-Bliley Act
- C) The Securities Exchange Act of 1934
- D) The Glass-Steagall Act

Answer: <https://biology-forums.com/index.php?topic=575414>

Question 2144

When the required return is different from the coupon interest rate and is constant until maturity, the value of the bond will approach its par value as it nears maturity.

Answer: <https://biology-forums.com/index.php?topic=576114>

Question 2145

An increase in the current asset to total asset ratio will result in _____.

- A) an increase in profit
- B) an increase in risk
- C) a decrease in risk
- D) a decrease in profit

Answer: <https://biology-forums.com/index.php?topic=577374>

Question 2146

If a corporate bond is issued with a coupon rate that varies directly with the required return, the price of the bond will _____.

- A) equal the face value
- B) be less than the face value
- C) be greater than the face value
- D) be greater than or less than the face value depending on how interest rates vary

Answer: <https://biology-forums.com/index.php?topic=576144>

Question 2147

Any bond rated Aaa through Caa according to Moody's, would be considered investment grade debt.

Answer: <https://biology-forums.com/index.php?topic=576047>

Question 2148

If a firm uses an aggressive financing strategy, _____.

- A) it increases return and increases risk
- B) it increases return and decreases risk
- C) it decreases return and increases risk
- D) it decreases return and decreases risk

Answer: <https://biology-forums.com/index.php?topic=577402>

Question 2149

Preferred stock is a special form of stock having a fixed periodic dividend that must be paid prior to payment of any interest to outstanding bonds.

Answer: <https://biology-forums.com/index.php?topic=576188>

Question 2150

The range of an asset's risk is found by subtracting the worst outcome from the best outcome.

Answer: <https://biology-forums.com/index.php?topic=576377>

Question 2151

Due to clientele effect, Modigliani and Miller argue that the shareholders get what they expect and, thus, the value of a firm's stock is unaffected by dividend policy.

Answer: <https://biology-forums.com/index.php?topic=577207>

Question 2152

With the existence of fixed operating costs, an increase in sales will result in _____ increase in EBIT.

- A) a proportional
- B) an equal
- C) a less than proportional
- D) a more than proportional

Answer: <https://biology-forums.com/index.php?topic=577033>

Question 2153

A leveraged buyout needs to be carried out through _____.

- A) a hostile takeover
- B) a friendly merger
- C) a vertical merger or a hostile takeover
- D) a conglomerate merger

Answer: <https://biology-forums.com/index.php?topic=578041>

Question 2154

A type of lease in which the lessor acquires or purchases the asset in order to lease to a given lessee is known as _____.

- A) a mortgage
- B) a direct lease
- C) a sale-leaseback arrangement
- D) a leveraged lease

Answer: <https://biology-forums.com/index.php?topic=577806>

Question 2155

One of the major reasons for not attaching a warrant is that investors require the issuing firm to pay a higher interest rate if a warrant is attached than if it is not.

Answer: <https://biology-forums.com/index.php?topic=577892>

Question 2156

_____ are not obligations of the U.S. government, but most purchasers feel that they are implicitly guaranteed by the federal government.

- A) Treasury notes
- B) Treasury bills
- C) Federal agency issues
- D) Banker's acceptances

Answer: <https://biology-forums.com/index.php?topic=577560>

Question 2157

A firm has just ended its calendar year making a sale in the amount of \$200,000 of merchandise purchased during the year at a total cost of \$150,500. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The possible problem this firm may face is _____.

- A) high taxes
- B) lack of cash flow
- C) inability to receive credit
- D) high leverage

Answer: <https://biology-forums.com/index.php?topic=575308>

Question 2158

The General Chemical Company uses 150,000 gallons of hydro chloric acid per month. The cost of carrying the chemical in inventory is 50 cents per gallon per year, and the cost of ordering the chemical is \$150 per order. The firm uses the chemical at a constant rate throughout the year. The chemical's economic order quantity is _____.

- A) 32,863 gallons
- B) 11,619 gallons
- C) 9,487 gallons
- D) 1,900 gallons

Answer: <https://biology-forums.com/index.php?topic=577436>

Question 2159

Lenders of secured short-term funds prefer collateral _____.

- A) as it reduces the risk of default
- B) that are illiquid assets
- C) to reduce the losses if the borrower defaults
- D) so that they can charge a higher interest rate

Answer: <https://biology-forums.com/index.php?topic=577734>

Question 2160

The DuPont system allows a firm to break its return on equity into a profit-on-sales component, an efficiency-of-asset-use component, and a use-of-operating leverage component.

Answer: <https://biology-forums.com/index.php?topic=575609>

Question 2161

The treasurer typically manages a firm's cash, investing surplus funds when available and securing outside financing when needed.

Answer: <https://biology-forums.com/index.php?topic=575283>

Question 2162

A portfolio that combines two assets having perfectly positive correlation returns cannot reduce the portfolio's overall risk below the risk of the least risky asset.

Answer: <https://biology-forums.com/index.php?topic=576434>

Question 2163

A primary market is a financial market in which pre-owned securities are traded.

Answer: <https://biology-forums.com/index.php?topic=575360>

Question 2164

Tangshan Mining Company has an outstanding issue of convertible bonds with a \$1,000 par value. The bonds have a 10 percent coupon rate, have a 10-year maturity, and are convertible into 100 shares of common stock. The yield to maturity on bonds of similar risk is 10 percent. Based on this information, the straight bond value of the bond is _____.

- A) \$1,000.00
- B) \$978.39
- C) \$1,087.36
- D) \$1,123.86

Answer: <https://biology-forums.com/index.php?topic=577881>

Question 2165

Two assets whose returns move in the same direction and have a correlation coefficient of +1 are very risky assets.

Answer: <https://biology-forums.com/index.php?topic=576419>

Question 2166

An approach to capital rationing that involves graphing project returns in descending order against the total dollar investment to determine the group of acceptable projects is called the _____.

- A) net present value approach
- B) internal rate of return approach
- C) payback approach
- D) profitability index approach

Answer: <https://biology-forums.com/index.php?topic=576952>

Question 2167

The _____ uses no, or very little, safety stock.

- A) basic economic order quantity system
- B) materials requirement planning system
- C) just-in-time system
- D) FIFO method

Answer: <https://biology-forums.com/index.php?topic=577428>

Question 2168

Nico Nelson, a management trainee at a large New York-based bank, is trying to estimate the real rate of return expected by investors. He notes that the 3-month T-bill currently yields 3 percent and has decided to use the consumer price index as a proxy for expected inflation. What is the estimated real rate of interest if the CPI is currently 2 percent?

- A) 5%
- B) 1%
- C) 3%
- D) 2%

Answer: <https://biology-forums.com/index.php?topic=575968>

Question 2169

If you expect to retire in 30 years, live on \$50,000 per year and expect the inflation to average 3% over the next 30 years, what amount of annual income will you need to live at the same comfort level in 30 years?

- A) \$121,363
- B) \$95,000
- C) \$20,599
- D) \$51,500

Answer: <https://biology-forums.com/index.php?topic=575787>

Question 2170

Firms' motives to merge include growth or diversification, synergy, fund raising, tax considerations, and defense against takeover.

Answer: <https://biology-forums.com/index.php?topic=577969>

Question 2171

The CAPM uses standard deviation to relate an asset's risk relative to the market to the asset's required return.

Answer: <https://biology-forums.com/index.php?topic=576513>

Question 2172

Tangshan Mining issued \$10,000 of commercial paper for \$9,925 for 60 days. Based on this information, the effective annual rate of interest on the commercial paper would be about 10 percent.

Answer: <https://biology-forums.com/index.php?topic=577692>

Question 2173

In a financial statement of the firm, put and call options _____.

- A) determine cash management policy
- B) influence the capital structure decision
- C) affect bond financing
- D) have no influence

Answer: <https://biology-forums.com/index.php?topic=577939>

Question 2174

_____ are liabilities for services received for which payment has yet to be made.

- A) Notes payable
- B) Accruals
- C) Accounts payable
- D) Accounts receivable

Answer: <https://biology-forums.com/index.php?topic=577623>

Question 2175

_____ are projected financial statements.

- A) Pro forma statements
- B) Statements of retained earnings
- C) Cash budgets
- D) Cash flow statements

Answer: <https://biology-forums.com/index.php?topic=575747>

Question 2176

The conflict resulting from a manager's desire to increase a firm's risk without increasing current borrowing costs and lenders' desire to limit lending is one effect of the _____ problem.

- A) agency
- B) leverage
- C) capital
- D) variable cost

Answer: <https://biology-forums.com/index.php?topic=577121>

Question 2177

A _____ is a restrictive provision in a bond indenture, providing for the systematic retirement of the bonds prior to their maturity.

- A) redemption clause
- B) sinking-fund requirement
- C) conversion feature
- D) subordination clause

Answer: <https://biology-forums.com/index.php?topic=576016>

Question 2178

Tangshan Mining has common stock at par of \$200,000, paid-in capital in excess of par of \$400,000, and retained earnings of \$280,000. In states where the firm's legal capital is defined as the total of par value and paid-in capital in excess of par, the firm could pay out _____ in cash dividends without impairing its capital.

- A) \$280,000
- B) \$400,000
- C) \$480,000
- D) \$600,000

Answer: <https://biology-forums.com/index.php?topic=577238>

Question 2179

The sale of a unit of a firm to existing management is often achieved through a leveraged buyout.

Answer: <https://biology-forums.com/index.php?topic=578018>

Question 2180

The components of risk premium includes business risk, financial risk, interest rate risk, liquidity risk, and tax risk.

Answer: <https://biology-forums.com/index.php?topic=575960>

Question 2181

Dr. Dan is considering investment in a project with beta coefficient of 1.75. What would you recommend him to do if this investment has an 11.5 percent rate of return, risk-free rate is 5.5 percent, and the rate of return on the market portfolio of assets is 8.5 percent?

Answer: <https://biology-forums.com/index.php?topic=576532>

Question 2182

The risk-adjusted discount rate (RADR) is the rate of return that must be earned on a given project to compensate a firm's owners adequately, that is,

to maintain or improve the firm's share price.

Answer: <https://biology-forums.com/index.php?topic=576915>

Question 2183

Regularly paying a fixed or increasing dividend eliminates uncertainty about the frequency and magnitude of dividends.

Answer: <https://biology-forums.com/index.php?topic=577250>

Question 2184

\$100 is received at the beginning of year 1, \$200 is received at the beginning of year 2, and \$300 is received at the beginning of year 3. If these cash flows are deposited at 12 percent, their combined future value at the end of year 3 is _____.

- A) \$1,536
- B) \$ 672
- C) \$ 727
- D) \$1,245

Answer: <https://biology-forums.com/index.php?topic=575833>

Question 2185

Firms are usually prohibited by state law from distributing _____.

- A) retained earnings as dividends
- B) paid-in capital in excess of par as dividends
- C) dividends in a year the firm has a net loss
- D) preferred dividends

Answer: <https://biology-forums.com/index.php?topic=577236>

Question 2186

In a(n) _____, a firm announces the price it is willing to pay to buy back shares and the quantity of shares it wishes to repurchase.

- A) Dutch auction
- B) tender offer
- C) American option
- D) European auction

Answer: <https://biology-forums.com/index.php?topic=577190>

Question 2187

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Previous Edition

AACSB Tag: Analytic Skills

12) The priority of claims established by Chapter 7 of the Bankruptcy Reform Act of 1978 gives priority to claims of _____.

- A) unsecured creditors over claims of secured creditors
- B) preferred stockholders over claims of unsecured creditors
- C) wages payable over claims of unsecured creditors
- D) farmers in grain storage over expenses of administering the bankruptcy

Answer: <https://biology-forums.com/index.php?topic=578144>

Question 2188

The president's letter, the first component of the stockholders' report, is the primary communication from management to a firm's employees.

Answer: <https://biology-forums.com/index.php?topic=575447>

Question 2189

In calculating the cost of common stock equity, the model which describes the relationship between the required return and the nondiversifiable risk of the firm is _____.

- A) the constant-growth model
- B) the NPV model
- C) the variable growth model
- D) the capital asset pricing model

Answer: <https://biology-forums.com/index.php?topic=576621>

Question 2190

The degree of operating leverage depends on the base level of sales used as a point of reference. The closer the base sales level used is to the

operating breakeven point, the greater the operating leverage.

Answer: <https://biology-forums.com/index.php?topic=577016>

Question 2191

Because a business firm can be viewed as a portfolio of assets, it is important that the firm maintains a diversified portfolio of assets.

Answer: <https://biology-forums.com/index.php?topic=576926>

Question 2192

Nico owns 100 shares of Stock X which has a price of \$12 per share and 200 shares of Stock Y which has a price of \$3 per share. What is the proportion of Nico's portfolio invested in stock X?

- A) 77%
- B) 67%
- C) 50%
- D) 33%

Answer: <https://biology-forums.com/index.php?topic=576492>

Question 2193

The greater the interest rate and the longer the period of time, the higher the present value.

Answer: <https://biology-forums.com/index.php?topic=575774>

Question 2194

Companies involved in international capital budgeting projects can minimize political risks by structuring the investment as a joint venture and selecting a well-connected local partner.

Answer: <https://biology-forums.com/index.php?topic=576825>

Question 2195

Hayley's Optical has a stockholders' equity account as shown below. The firm's common stock currently sells for \$20 per share.

(a) What is the maximum dividend per share Hayley's Optical can pay? (Assume capital includes all paid-in capital.)

(b) Recast the partial balance sheet (the stockholders' equity accounts) to show independently

- (1) a 2-for-1 stock split of the common stock.
- (2) a cash dividend of \$1.50 per share.
- (3) a stock dividend of 5% on the common stock.

(c) At what price would you expect Hayley's Optical stock to sell after

- (1) the stock split?
- (2) the stock dividend?

Answer: <https://biology-forums.com/index.php?topic=577291>

Question 2196

The net fixed asset investment (NFAI) is defined as the change in net fixed assets plus depreciation.

Answer: <https://biology-forums.com/index.php?topic=575647>

Question 2197

Which of the following is an advantage of leasing from a lessee's perspective?

- A) The return to the lessor is quite high.
- B) prohibition on leasehold improvements
- C) Maximum claim of the lessor in the event of bankruptcy is ten years of lease payments.
- D) Maximum claim of the lessor in the event of bankruptcy is three years of lease payments.

Answer: <https://biology-forums.com/index.php?topic=577810>

Question 2198

The net current asset investment (NCAI) is defined as the change in current assets minus the change in sum of the accounts payable and accruals.

Answer: <https://biology-forums.com/index.php?topic=575648>

Question 2199

_____ involves the strategic use of mailing points and bank accounts to lengthen mail and clearing floats.

- A) A direct send
- B) Concentration banking
- C) A lockbox
- D) Controlled disbursing

Answer: <https://biology-forums.com/index.php?topic=577553>

Question 2200

The purpose of managing current assets and current liabilities is to _____.

- A) achieve a balance between short-term and long-term financing of a firm
- B) achieve as low a level of current liabilities as possible
- C) achieve a balance between profitability and risk that contributes to a firm's value
- D) achieve as high a level of current liabilities as possible

Answer: <https://biology-forums.com/index.php?topic=577308>

Question 2201

Zero-balance accounts are checking accounts in which a zero balance is maintained and the bank automatically covers all checks presented against the accounts.

Answer: <https://biology-forums.com/index.php?topic=577524>

Question 2202

The higher the degree of financial leverage (DFL), the greater the leverage a given financing plan has, and the steeper its slope when plotted on EBIT-EPS axes.

Answer: <https://biology-forums.com/index.php?topic=577147>

Question 2203

A proxy statement is a statement transferring _____.

- A) the ownership of a bondholder to another party
- B) the votes of a bondholder to the another party
- C) the votes of a stockholder to another party
- D) the ownership of a stockholder to another party

Answer: <https://biology-forums.com/index.php?topic=576209>

Question 2204

A firm is considering relaxing credit standards which will result in an increase in annual sales from \$3 million to \$3.75 million, a decrease in the cost of annual sales from \$2,225,000 to \$2,000,000, an increase in additional profit contribution from sales of \$10,000, and an increase in the average collection period of 15 days, from 20 to 35 days. The bad debt loss is expected to increase from 1 percent to 1.5 percent of sales. The firm's required return on investments is 15 percent. The net result of the firm relaxing its credit standards is _____. (Assume a 360-day year.)

- A) \$10,000
- B) -\$16,250
- C) -\$26,875
- D) -\$16,875

Answer: <https://biology-forums.com/index.php?topic=577482>

Question 2205

Treasury stock generally does not have voting rights, does not earn dividends, and does not have a claim on assets in liquidation.

Answer: <https://biology-forums.com/index.php?topic=576233>

Question 2206

The risk-free rate is the lowest rate of interest charged by the nation's leading banks on business loans to their most important and reliable business borrowers.

Answer: <https://biology-forums.com/index.php?topic=577633>

Question 2207

Which of the following is true of NPV profile?

- A) It is used for evaluating and comparing independent projects when conflicting ranking exists.
- B) It is a graph that illustrates a project's IRR against various values of NPV.
- C) It shows an inverse relationship between a project's IRR and NPV.
- D) It charts the net present value of a project as a function of the cost of capital.

Answer: <https://biology-forums.com/index.php?topic=576781>

Question 2208

A firm arranged for a 120-day bank loan at an annual rate of interest of 10 percent. If the loan is for \$100,000, how much interest in dollars will the firm pay? (Assume a 360-day year.)

- A) \$10,000
- B) \$30,000
- C) \$3,333
- D) \$1,000

Answer: <https://biology-forums.com/index.php?topic=577683>

Question 2209

The time value concept/calculation used in amortizing a loan is _____.

- A) future value of a dollar
- B) future value of an annuity
- C) present value of a dollar
- D) present value of an annuity

Answer: <https://biology-forums.com/index.php?topic=575878>

Question 2210

The real utility of the coefficient of variation is in comparing assets that have equal expected returns.

Answer: <https://biology-forums.com/index.php?topic=576383>

Question 2211

A U.S.-based company that exports goods and has accounts receivable denominated in a foreign currency _____.

- A) faces no risk if the relations between the countries get rough
- B) faces the risk that the U.S. dollar will depreciate in value relative to the foreign currency
- C) faces the risk that the U.S. dollar will appreciate in value relative to the foreign currency
- D) faces the risk that the foreign currency would appreciate in value relative to the U.S dollar

Answer: <https://biology-forums.com/index.php?topic=577706>

Question 2212

The financial leverage multiplier is an indicator of how much _____ a corporation is utilizing.

- A) operating leverage
- B) long-term debt
- C) total debt
- D) total assets

Answer: <https://biology-forums.com/index.php?topic=575619>

Question 2213

A firm has a current capital structure consisting of \$400,000 of 12 percent annual interest debt and 50,000 shares of common stock. The firm's tax rate is 40 percent on ordinary income. If the EBIT is expected to be \$200,000, the firm's earnings per share will be _____.

- A) \$2.40
- B) \$3.04
- C) \$7.04
- D) \$1.82

Answer: <https://biology-forums.com/index.php?topic=577154>

Question 2214

A tender offer is a formal offer to purchase a given number of shares of a firm's stock at a specified price.

Answer: <https://biology-forums.com/index.php?topic=577956>

Question 2215

If a firm stretches its accounts payable, its cost of giving up a cash discount is increased.

Answer: <https://biology-forums.com/index.php?topic=577617>

Question 2216

A projected excess cash balance for the month may be _____.

- A) financed with short-term securities
- B) financed with long-term securities
- C) invested in marketable securities
- D) invested in long-term securities

Answer: <https://biology-forums.com/index.php?topic=575737>

Question 2217

Which of the following is true of common stock ?

- A) It is often considered quasi-debt due to fixed payment obligation.
- B) It has less restrictive covenants than debt.
- C) It gives the holder voting rights which permit selection of the firm's directors.
- D) Its holders have priority over preferred stockholders in the event of liquidation of assets.

Answer: <https://biology-forums.com/index.php?topic=576208>

Question 2218

What is the dividend on an 8 percent preferred stock that currently sells for \$45 and has a face value of \$50 per share?

- A) \$3.33
- B) \$3.60
- C) \$4.00
- D) \$5.00

Answer: <https://biology-forums.com/index.php?topic=576588>

Question 2219

The future value of a dollar _____ as the interest rate increases and _____ the further in the future an initial deposit is to be received.

- A) decreases; decreases
- B) decreases; increases
- C) increases; increases
- D) increases; decreases

Answer: <https://biology-forums.com/index.php?topic=575785>

Question 2220

Accounts payable results from transactions in which merchandise is purchased but no formal note is signed to show the purchaser's liability to the seller.

Answer: <https://biology-forums.com/index.php?topic=577586>

Question 2221

Increasing the length of the credit period can increase sales, but both the investment in accounts receivable and bad debt expenses are likely to increase as well.

Answer: <https://biology-forums.com/index.php?topic=577457>

Question 2222

Economic exposure is the risk resulting from the effects of changes in foreign exchange rates on a firm's value.

Answer: <https://biology-forums.com/index.php?topic=578191>

Question 2223

A firm has an outstanding 15-year convertible bond issue with a \$1,000 par value and a stated annual interest rate of 7 percent. The bond is convertible into 50 shares of common stock which has a current market price of \$25. A straight bond could have been sold with a 10 percent stated interest rate. The conversion value of the bond is _____.

- A) \$1,328
- B) \$1,250
- C) \$1,000
- D) \$771

Answer: <https://biology-forums.com/index.php?topic=577877>

Question 2224

In an efficient market, securities are typically in equilibrium, which means that they are fairly priced and that their expected returns equal their required returns.

Answer: <https://biology-forums.com/index.php?topic=576278>

Question 2225

Credit selection involves application of techniques for determining which customers should receive credit.

Answer: <https://biology-forums.com/index.php?topic=577446>

Question 2226

The board of directors of Ride World, Inc. has declared \$5.00 common stock dividend and accepted a plan to freeze the dividend at \$5 per year indefinitely. What is the value of the Ride World's common stock if the required rate of interest is 15 percent?

Answer: <https://biology-forums.com/index.php?topic=576308>

Question 2227

The ACH (automated clearing house) debits are preauthorized electronic withdrawals from a payer's account.

Answer: <https://biology-forums.com/index.php?topic=577523>

Question 2228

A firm's credit selection procedures must be established on a sound economic basis that considers the costs of investigating the creditworthiness of a customer and the expected size of its credit purchases.

Answer: <https://biology-forums.com/index.php?topic=577453>

Question 2229

Since the net proceeds from sale of new common stock will be less than the current market price, the cost of new issues will always be less than the cost of existing issues.

Answer: <https://biology-forums.com/index.php?topic=576603>

Question 2230

A wealthy art collector has decided to endow her favorite art museum by establishing funds for an endowment which would provide the museum with \$1,000,000 per year for acquisitions into perpetuity. The art collector will give the endowment upon her fiftieth birthday 10 years from today. She plans to accumulate the endowment by making annual end-of-year deposits into an account. The rate of interest is expected to be 6 percent in all future periods. How much must the art collector deposit each year to accumulate to the required amount?

- A) \$1,575,333
- B) \$ 736,000
- C) \$1,264,466
- D) \$ 943,396

Answer: <https://biology-forums.com/index.php?topic=575908>

Question 2231

_____ analysis involves the comparison of different firms' financial ratios at the same point in time.

- A) Time-series
- B) Cross-sectional
- C) Marginal
- D) Technical

Answer: <https://biology-forums.com/index.php?topic=575528>

Question 2232

Financing that matures in one year or less and has specific assets pledged as collateral is called _____.

- A) unsecured long-term financing
- B) unsecured short-term financing
- C) secured short-term financing
- D) secured long-term financing

Answer: <https://biology-forums.com/index.php?topic=577733>

Question 2233

Most businesses raise money by selling their securities in a _____.

- A) public offering
- B) forex market
- C) futures market
- D) commodities market

Answer: <https://biology-forums.com/index.php?topic=575362>

Question 2234

A firm has an average age of inventory of 20 days, an average collection period of 30 days, and an average payment period of 60 days. The firm's cash conversion cycle is _____ days.

- A) 70

- B) 50
- C) -10
- D) 110

Answer: <https://biology-forums.com/index.php?topic=577360>

Question 2235

Tangshan Mining borrowed \$10,000 for one year under a line of credit with a stated interest rate of 8 percent and a 10 percent compensating balance. Thus, the firm keeps a balance of about \$800 in its checking account.

Answer: <https://biology-forums.com/index.php?topic=577652>

Question 2236

One way to improve the cash conversion cycle is to _____.

- A) speed up collections
- B) slow down credit approvals
- C) slow down inventory turnover
- D) speed up payments

Answer: <https://biology-forums.com/index.php?topic=577370>

Question 2237

Yantai Food, Inc. has issued a bond with par value of \$1,000, a coupon rate of 9 percent that is paid semi-annually, and that matures in 10 years. What is the value of the bond if the required rate of return is 12 percent?

Answer: <https://biology-forums.com/index.php?topic=576146>

Question 2238

If managers are not owners of their company, then they are _____.

- A) dealers
- B) agents
- C) bondholders
- D) brokers

Answer: <https://biology-forums.com/index.php?topic=575342>

Question 2239

Acquisitions are especially attractive when an acquiring firm's stock price is high, because fewer shares must be exchanged to acquire the firm.

Answer: <https://biology-forums.com/index.php?topic=578060>

Question 2240

Tangshan China's stock is currently selling for \$160.00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. In addition, Tangshan China's most recent dividend was \$5.50. If the expected risk free rate of return is 3 percent, the expected market premium is 4 percent, and Tangshan has a beta of 1.2, Tangshan's stock would be _____.

- A) overvalued because the market price is higher than the resulting share value
- B) undervalued because the market price is less than the resulting share value
- C) overvalued because the resulting share value is higher than the market value
- D) undervalued because the resulting share value is less than the market value

Answer: <https://biology-forums.com/index.php?topic=576325>

Question 2241

In the EOQ model, if the size of order increases, the _____.

- A) carrying cost will increase
- B) order cost will remain unchanged
- C) order cost will increase
- D) storage cost will decrease

Answer: <https://biology-forums.com/index.php?topic=577431>

Question 2242

Since retained earnings is a more expensive source of financing than debt and preferred stock, the weighted average cost of capital will fall once retained earnings have been exhausted.

Answer: <https://biology-forums.com/index.php?topic=576639>

Question 2243

An annuity is _____.

- A) a mix of cash flows in conventional and nonconventional
- B) a stream of perpetual cash flows
- C) a series of constantly growing cash flows
- D) a series of equal annual cash flows

Answer: <https://biology-forums.com/index.php?topic=576724>

Question 2244

NAFTA is an international financial market that provides for borrowing and lending currencies outside their country of origin.

Answer: <https://biology-forums.com/index.php?topic=578150>

Question 2245

A firm wishes to establish a fund which, in 10 years, will accumulate to \$10,000,000. The fund will be used to repay an outstanding bond issue. The firm plans to make deposits, which will earn 12 percent, to this fund at the end of each of the 10 years prior to maturity of the bond. How large must these deposits be to accumulate to \$10,000,000?

Answer: <https://biology-forums.com/index.php?topic=575921>

Question 2246

The amount of the claim of preferred stockholders in liquidation is normally equal to the market value of the preferred stock.

Answer: <https://biology-forums.com/index.php?topic=576195>

Question 2247

The cost of capital is a dynamic concept and it is affected by economic and firm-specific factors such as business risk and financial risk.

Answer: <https://biology-forums.com/index.php?topic=576544>

Question 2248

If an asset is sold for more than its initial purchase price, the gain on the sale is composed of two parts: a capital gain and recaptured depreciation.

Answer: <https://biology-forums.com/index.php?topic=576852>

Question 2249

High-risk, high-yield junk bonds have declined in popularity over time due to _____.

- A) the decline in mergers and takeovers, which these bonds were used to finance
- B) the declining need of growth capital
- C) the stabilizing of interest rates
- D) a number of major defaults on these bonds

Answer: <https://biology-forums.com/index.php?topic=576090>

Question 2250

A financial manager's financing decisions determine _____.

- A) both the mix and the type of assets found on the firm's balance sheet
- B) the most appropriate mix of short-term and long-term financing
- C) both the mix and the type of assets and liabilities found on the firm's balance sheet
- D) the proportion of the firm's earnings to be paid as dividend

Answer: <https://biology-forums.com/index.php?topic=575322>

Question 2251

Which of the following activities of a finance manager determines the types of assets the firm holds?

- A) budget allocation
- B) investment decisions
- C) financing decisions
- D) analyzing and planning cash flows

Answer: <https://biology-forums.com/index.php?topic=575315>

Question 2252

The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer.

Answer: <https://biology-forums.com/index.php?topic=575324>

Question 2253

The selling of some of a firm's assets is called _____.

- A) leverage buyout
- B) consolidation
- C) reverse merger
- D) divestiture

Answer: <https://biology-forums.com/index.php?topic=578044>

Question 2254

The cost to a firm of each type of capital is dependent upon _____.

- A) the risk-free rate of bonds plus the business risk of the firm
- B) the risk-free rate of each type of capital plus the business risk of the firm
- C) the risk-free rate of each type of capital plus the financial risk of the firm
- D) the risk-free rate of each type of capital plus the business risk and the financial risk of the firm

Answer: <https://biology-forums.com/index.php?topic=576552>

Question 2255

As credit standards are relaxed, sales are expected to _____ and the investment in accounts receivable is expected to _____.

- A) increase; increase
- B) increase; decrease
- C) decrease; decrease
- D) decrease; increase

Answer: <https://biology-forums.com/index.php?topic=577476>

Question 2256

Compared to a line of credit, a revolving credit agreement will be _____ for a firm.

- A) a lower cost, higher risk method of short-term borrowing
- B) a lower cost, lower risk method of short-term borrowing
- C) a higher cost, higher risk method of short-term borrowing
- D) a higher cost, lower risk method of short-term borrowing

Answer: <https://biology-forums.com/index.php?topic=577677>

Question 2257

To be truly marketable, a security must _____.

- A) be highly rated by a credit rating agency
- B) have the characteristics of a callable bond
- C) be readily convertible into cash
- D) have a maturity of 10 years or more

Answer: <https://biology-forums.com/index.php?topic=577557>

Question 2258

The key dimension of credit selection which analyzes the amount of assets an applicant has available for use in securing the credit is _____.

- A) capital
- B) collateral
- C) capacity
- D) conditions

Answer: <https://biology-forums.com/index.php?topic=577468>

Question 2259

In capital budgeting, the preferred approaches in assessing whether a project is acceptable are those that integrate time value of money, risk and return considerations, and valuation concepts to select capital expenditures that are consistent with the firm's goal of maximizing owners' wealth.

Answer: <https://biology-forums.com/index.php?topic=576667>

Question 2260

The future value of \$100 received today and deposited in an account for four years paying semiannual interest of 6 percent is _____.

- A) \$450
- B) \$127
- C) \$889
- D) \$134

Answer: <https://biology-forums.com/index.php?topic=575857>

Question 2261

Find the solution to the following questions regarding convertible bonds.

(a) Calculate the conversion price for each of the following bonds.

A \$1,000-par-value bond convertible into 25 shares of common stock.

A \$1,000-par value bond convertible into 100 shares of common stock.

(b) Calculate the conversion ratio for each of the following bonds. A \$1,000 par-value bond convertible into common stock at \$50 per share.

A \$1,000 par-value bond convertible into common stock at \$40 per share.

(c) Calculate the stock value for each of the following convertible bonds.

A \$1,000 par-value bond convertible into common stock at \$25 per share. The current market price of the stock is \$30 per share.

A \$1,000 par-value bond convertible into 100 shares of common stock. The current market price of the stock is \$12 per share.

Answer: <https://biology-forums.com/index.php?topic=577859>

Question 2262

The book value of an asset is equal to its installed cost of asset minus the accumulated depreciation.

Answer: <https://biology-forums.com/index.php?topic=576846>

Question 2263

In a line of credit arrangement, a firm pays interest on _____.

A) the full line of credit

B) the total line of credit

C) only the amount actually borrowed

D) only the amount actually borrowed and commitment fees on any unused portion of the loan

Answer: <https://biology-forums.com/index.php?topic=577665>

Question 2264

Which pattern of cash flow stream is the most difficult to use when evaluating projects?

A) mixed stream

B) conventional flow

C) nonconventional flow

D) annuity

Answer: <https://biology-forums.com/index.php?topic=576725>

Question 2265

Methods of divestiture include the sale of a product line to another firm, the sale of a unit to existing management, spin-offs, and the liquidation of assets.

Answer: <https://biology-forums.com/index.php?topic=578029>

Question 2266

From a bond issuer's perspective, the IRR on a bond's cash flows is its cost to maturity; from the investor's perspective, the IRR on a bond's cash flows is the yield to maturity (YTM).

Answer: <https://biology-forums.com/index.php?topic=576565>

Question 2267

A mixer was purchased two years ago for \$120,000 and can be sold for \$125,000 today. The mixer has been depreciated using the MACRS 5-year recovery period and the firm pays 40 percent taxes on both ordinary income and capital gain.

(a) Compute recaptured depreciation and capital gain (loss), if any.

(b) Find the firm's tax liability.

Answer: <https://biology-forums.com/index.php?topic=576870>

Question 2268

Which of the following is true of a secondary market?

A) It is a market for an unlisted company to raise equity capital.

B) It is a market where securities are issued through private placement

C) It is a market in which short-term money market instruments such as Treasury bills are traded.

D) It is a market in which preowned securities are traded.

Answer: <https://biology-forums.com/index.php?topic=575380>

Question 2269

Clientele effect is the argument that a firm attracts shareholders whose preferences with respect to the payment and stability of dividends corresponds to the payment pattern and stability of the firm itself.

Answer: <https://biology-forums.com/index.php?topic=577205>

Question 2270

A firm has an outstanding bond with a \$1,000 par value that is convertible into 50 shares of common stock. The bond's conversion ratio is _____.

- A) 20
- B) 25
- C) 50
- D) 100

Answer: <https://biology-forums.com/index.php?topic=577869>

Question 2271

A sophisticated capital budgeting technique that can be computed by subtracting a project's initial investment from the present value of its cash inflows discounted at a rate equal to a firm's cost of capital is called profitability index.

Answer: <https://biology-forums.com/index.php?topic=576740>

Question 2272

The weighted average cost that reflects the interrelationship of financing decisions can be obtained by weighing the cost of each source of financing by the target proportion in a firm's capital structure.

Answer: <https://biology-forums.com/index.php?topic=576637>

Question 2273

The cost of giving up a cash discount is the implied rate of interest paid in order to delay payment of an account payable for an additional number of days.

Answer: <https://biology-forums.com/index.php?topic=577589>

Question 2274

For any interest rate and for any period of time, the more frequently interest is compounded, the greater the amount of money that has to be invested today in order to accumulate a given future amount.

Answer: <https://biology-forums.com/index.php?topic=575852>

Question 2275

A conversion feature in a bond allows bondholders to change each bond into a stated number of shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=576039>

Question 2276

The cost of capital reflects the cost of funds over the long run measured at a given point in time, based on the best information available.

Answer: <https://biology-forums.com/index.php?topic=576539>

Question 2277

In developing the cash flows for an expansion project, the analysis is the same as the analysis for replacement projects where _____.

- A) all cash flows from the old assets are equal
- B) prior cash flows are irrelevant
- C) all cash flows from the old asset are zero
- D) cash inflows equal cash outflows

Answer: <https://biology-forums.com/index.php?topic=576827>

Question 2278

The cost of capital reflects the cost of funds _____.

- A) that makes the net present value of a project equal zero
- B) at a given point in time
- C) over a long-run time period
- D) at current book values

Answer: <https://biology-forums.com/index.php?topic=576548>

Question 2279

In case of a manufacturing organization, which of the following is a variable cost that varies directly with the sales volume?

- A) interest cost
- B) dividend cost
- C) shipping cost
- D) rental cost

Answer: <https://biology-forums.com/index.php?topic=576989>

Question 2280

An operating lease need not be capitalized, but its basic features must be disclosed in a footnote to the financial statements.

Answer: <https://biology-forums.com/index.php?topic=577784>

Question 2281

Which of the following is an example of noncash charges?

- A) depreciation
- B) accruals
- C) interest expense
- D) dividends paid

Answer: <https://biology-forums.com/index.php?topic=575661>

Question 2282

The acquisition of a "cash-rich" company allows the acquiring company _____.

- A) to reap greater tax benefits
- B) to reduce leverage and to increase borrowing power
- C) to develop monopoly control over the markets
- D) to achieve economies of scale in some phase of the business

Answer: <https://biology-forums.com/index.php?topic=578003>

Question 2283

Colin has inherited \$6,000 from the death of Grandma Anna. He would like to use this money to buy his mom Hayley a new scooter costing \$7,000, two years from now. Will Colin have enough money to buy the gift if he deposits his money in an account paying 8 percent compounded semiannually?

Answer: <https://biology-forums.com/index.php?topic=575792>

Question 2284

A firm has actual sales in November of \$1,000 and projected sales in December and January of \$3,000 and \$4,000, respectively. The firm makes 10 percent of its sales for cash, collects 40 percent of its sales one month following the sale, and collects the balance two months following the sale. The firm's total expected cash receipts in January is _____.

- A) \$700
- B) \$2,100
- C) \$1,900
- D) \$300

Answer: <https://biology-forums.com/index.php?topic=575740>

Question 2285

Which of the following is a disadvantage of factoring?

- A) ensures an uneven pattern of cash flows
- B) eliminates credit and collection departments
- C) turns accounts receivable into cash quickly
- D) highly expensive source of short-term financing

Answer: <https://biology-forums.com/index.php?topic=577738>

Question 2286

You have provided your friend with a service worth \$8,500. Your friend offers you the following cash flow instead of paying \$8,500 today. Should you accept his offer if your opportunity cost is 8 percent?

Answer: <https://biology-forums.com/index.php?topic=575844>

Question 2287

Janice borrows \$25,000 from the bank at 15 percent to be repaid in 10 equal annual installments. Calculate the end-of-year payment.

Answer: <https://biology-forums.com/index.php?topic=575915>

Question 2288

Greater control over the acquisition of raw materials or the distribution of finished goods is an economic benefit of a _____.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578009>

Question 2289

Tangshan Mining has common stock at par of \$200,000, paid-in capital in excess of par of \$400,000, and retained earnings of \$280,000. In states where the firm's legal capital is defined as the par value of common stock, the firm could pay out _____ in cash dividends without impairing its capital.

- A) \$200,000
- B) \$680,000
- C) \$600,000
- D) \$880,000

Answer: <https://biology-forums.com/index.php?topic=577237>

Question 2290

The future value of \$200 received today and deposited at 8 percent compounded semiannually for three years is _____.

- A) \$380
- B) \$158
- C) \$253
- D) \$252

Answer: <https://biology-forums.com/index.php?topic=575856>

Question 2291

A line of credit is an agreement between a commercial bank and a business, specifying the amount of unsecured short-term borrowing the bank will make available to the firm over a given period of time.

Answer: <https://biology-forums.com/index.php?topic=577630>

Question 2292

Which of the following is an attribute of a banker's acceptance?

- A) It is an unsecured note of issuer with large denominations.
- B) It has a maturity of 1 day to 3 years.
- C) Its risk and return is higher than U.S. Treasury issues.
- D) It is issued by a corporation with a high credit standing.

Answer: <https://biology-forums.com/index.php?topic=577563>

Question 2293

Commercial paper issues have maturities ranging from _____.

- A) six months to one year
- B) one year to three years
- C) three days to 270 days
- D) 0 to 30 days

Answer: <https://biology-forums.com/index.php?topic=577698>

Question 2294

With the ACH (automated clearing house) credits, disbursement float is sacrificed because ACH transactions immediately draw down a company's payroll account on pay day.

Answer: <https://biology-forums.com/index.php?topic=577522>

Question 2295

In general, the lower the correlation between asset returns, the greater the potential diversification of risk.

Answer: <https://biology-forums.com/index.php?topic=576431>

Question 2296

If an asset is depreciable and used in business, any loss on the sale of the asset is tax-deductible only against other capital gains income, not against

ordinary income.

Answer: <https://biology-forums.com/index.php?topic=576851>

Question 2297

The basic strategies that should be employed by a business firm in managing cash includes _____.

- A) paying accounts payable as early as possible
- B) turning over inventory as quickly as possible, avoiding stockouts
- C) operating in a fashion that requires maximum cash
- D) extending the credit period allowed to customers

Answer: <https://biology-forums.com/index.php?topic=577404>

Question 2298

The average investment of a firm in accounts receivable is equal to the firm's total variable cost of annual sales divided by its average collection period.

Answer: <https://biology-forums.com/index.php?topic=577449>

Question 2299

FASB Standard No. 13 requires explicit disclosure of _____ obligation on the firm's balance sheet.

- A) an operating lease
- B) a leveraged lease
- C) a sale-leaseback
- D) a capital lease

Answer: <https://biology-forums.com/index.php?topic=577797>

Question 2300

The EBIT-EPS approach to capital structure proposes that an optimal capital structure be selected which _____.

- A) maximizes the weighted average cost of capital
- B) minimizes the cost of debt
- C) maximizes the EPS
- D) minimizes dividends

Answer: <https://biology-forums.com/index.php?topic=577155>

Question 2301

Risk-free rate of interest is equal to the sum of the real rate of interest plus an inflation premium.

Answer: <https://biology-forums.com/index.php?topic=575941>

Question 2302

An increase in cost (fixed cost or variable cost) tends to increase the operating breakeven point, whereas an increase in the sales price per unit will decrease the operating breakeven point.

Answer: <https://biology-forums.com/index.php?topic=576973>

Question 2303

Net present value (NPV) assumes that intermediate cash inflows are reinvested at the cost of capital, whereas internal rate of return (IRR) assumes that intermediate cash inflows can be reinvested at a rate equal to the project's IRR.

Answer: <https://biology-forums.com/index.php?topic=576784>

Question 2304

Tangshan Industries has issued a bond which has a \$1,000 par value and a 15 percent annual coupon interest rate. The bond will mature in ten years and currently sells for \$1,250. Using this information, the yield to maturity on the Tangshan Industries bond is _____.

- A) 10.79 percent
- B) 11.39 percent
- C) 12.19 percent
- D) 13.29 percent

Answer: <https://biology-forums.com/index.php?topic=576157>

Question 2305

_____ are promised a fixed periodic dividend that must be paid prior to paying any common stock dividends.

- A) Preferred stockholders
- B) Common stockholders

- C) Bondholders
- D) Creditors

Answer: <https://biology-forums.com/index.php?topic=576212>

Question 2306

If the ending cash is greater than the minimum cash balance, excess cash exists.

Answer: <https://biology-forums.com/index.php?topic=575724>

Question 2307

Relevant portion of an asset's risk attributable to market factors that affect all firms is called _____.

- A) credit risk
- B) diversifiable risk
- C) systematic risk
- D) maturity risk

Answer: <https://biology-forums.com/index.php?topic=576470>

Question 2308

Mail float is the delay between the deposit of a check by a payee and the actual availability of the funds.

Answer: <https://biology-forums.com/index.php?topic=577511>

Question 2309

Generally, firms that are subject to high degrees of operating uncertainty, relatively short production cycles, or both, tend to use shorter planning horizons.

Answer: <https://biology-forums.com/index.php?topic=575694>

Question 2310

Revolving credit agreements are guaranteed loans that specify the maximum amount that a firm can owe the bank at any point in time.

Answer: <https://biology-forums.com/index.php?topic=577653>

Question 2311

A floating inventory lien is a lender's claim on the borrower's general inventory as collateral for a secured loan.

Answer: <https://biology-forums.com/index.php?topic=577745>

Question 2312

Combining negatively correlated assets having the same expected return results in a portfolio with _____ level of expected return and _____ level of risk.

- A) a higher; a lower
- B) the same; a higher
- C) the same; a lower
- D) a lower; a higher

Answer: <https://biology-forums.com/index.php?topic=576430>

Question 2313

The three basic types of leverage are _____.

- A) operating, production, and financial
- B) operating, production, and total
- C) production, financial, and total
- D) operating, financial, and total

Answer: <https://biology-forums.com/index.php?topic=576983>

Question 2314

The less fixed-cost debt (financial leverage) a firm uses, the greater will be its risk and return.

Answer: <https://biology-forums.com/index.php?topic=575580>

Question 2315

The Gordon model is based on the premise that the value of a share of stock is equal to sum of all future dividends it is expected to provide over an infinite time horizon.

Answer: <https://biology-forums.com/index.php?topic=576604>

Question 2316

The steeper the slope of the EBIT-EPS capital structure line, the lower is the financial risk.

Answer: <https://biology-forums.com/index.php?topic=577148>

Question 2317

Average age of inventory can be calculated as inventory turnover divided by 365.

Answer: <https://biology-forums.com/index.php?topic=575551>

Question 2318

A joint venture is a partnership under which the participants have contractually agreed to contribute specified amounts of money and expertise in exchange for stated proportions of ownership and profit.

Answer: <https://biology-forums.com/index.php?topic=578155>

Question 2319

Due to the difficulty of allocating costs to products in a multiproduct firm, the breakeven model may fail to determine breakeven points for each product line.

Answer: <https://biology-forums.com/index.php?topic=576977>

Question 2320

In general, a firm's theoretical optimal capital structure is that which balances the tax benefits of debt financing against the increase probability of bankruptcy that result from its use.

Answer: <https://biology-forums.com/index.php?topic=577087>

Question 2321

Recent years have seen the emergence of a third path to political risk that encompasses "global" events such as terrorism, antiglobalization movements and protests, Internet-based risks, and concerns over poverty, AIDS, and the environment all affect various MNCs' operations worldwide.

Answer: <https://biology-forums.com/index.php?topic=578199>

Question 2322

Hewitt Packing Company has an issue of \$1,000 par value bonds with a 14 percent annual coupon interest rate. The issue has ten years remaining to the maturity date. Bonds of similar risk are currently selling to yield a 12 percent rate of return. The current value of each Hewitt bond is _____.

- A) \$791.00
- B) \$1,000
- C) \$1,052.24
- D) \$1,113.00

Answer: <https://biology-forums.com/index.php?topic=576142>

Question 2323

Which of the following represents a current asset?

- A) automobiles
- B) buildings
- C) marketable securities
- D) equipment

Answer: <https://biology-forums.com/index.php?topic=575482>

Question 2324

Tangshan Antiques has a beta of 1.40, the annual risk-free rate of interest is currently 10 percent, and the required return on the market portfolio is 16 percent. The firm estimates that its future dividends will continue to increase at an annual compound rate consistent with that experienced over the 2010-2013 period.

(a) Estimate the value of Tangshan Antiques stock.

(b) A lawsuit has been filed against the company by a competitor in 2013, and the potential loss has increased risk, which is reflected in the company's beta, increasing it to 1.6. What is the estimated price of the stock following the filing of the lawsuit in 2013?

Answer: <https://biology-forums.com/index.php?topic=576501>

Question 2325

In capital budgeting, risk refers to _____.

- A) the chance that a project will prove acceptable

- B) the conflicting IRR and NPV in a project
- C) the degree of variability of initial outlay
- D) the uncertainty of cash inflows

Answer: <https://biology-forums.com/index.php?topic=576898>

Question 2326

Macro political risk is the risk faced by all foreign firms in a host country related to political change, revolution, or the adoption of new policies by the government of host country.

Answer: <https://biology-forums.com/index.php?topic=578197>

Question 2327

A stock split has _____.

- A) little effect on a firm's capital structure
- B) no effect on a firm's capital structure
- C) a measurable effect on a firm's capital structure
- D) a detrimental effect on a firm's capital structure

Answer: <https://biology-forums.com/index.php?topic=577286>

Question 2328

Like business bankruptcy and business failure, divestiture is most often undertaken to relieve pressure by creditors such as bondholders and banks due to the firm's relatively high debt levels.

Answer: <https://biology-forums.com/index.php?topic=578025>

Question 2329

Calculate the present value of a \$10,000 perpetuity at a 6 percent discount rate.

Answer: <https://biology-forums.com/index.php?topic=575820>

Question 2330

Carol's Dolls has fixed operating costs of \$25,000. Its sale price is \$55 per doll, and its variable operating cost is \$30 per doll. It sells 3,000 dolls per month. The firm's earnings before interest and taxes is _____.

- A) \$37,500
- B) \$55,000
- C) \$75,000
- D) \$50,000

Answer: <https://biology-forums.com/index.php?topic=577001>

Question 2331

Tangshan Mining Company has an outstanding issue of convertible bonds with a \$1,000 par value. The bonds have a 10 percent coupon rate, have a 10-year maturity, and are convertible into 100 shares of common stock. The yield to maturity on bonds of similar risk is 10 percent and the market price of the firm's common stock is currently \$15.00. Based on this information, the conversion value of the bond is _____.

- A) \$1,000.00
- B) \$1,500.00
- C) \$750.00
- D) \$1250.00

Answer: <https://biology-forums.com/index.php?topic=577882>

Question 2332

In the case of liquidation, bondholders are paid first, followed by preferred stockholders, followed by common stockholders.

Answer: <https://biology-forums.com/index.php?topic=576192>

Question 2333

In the broadest sense, activities involving expansion or contraction of a firm's operations or changes in its assets or ownership structure are called corporate restructuring.

Answer: <https://biology-forums.com/index.php?topic=577950>

Question 2334

The market value of a convertible security is likely to be greater than its straight value or conversion value.

Answer: <https://biology-forums.com/index.php?topic=577862>

Question 2335

Operating cash flow (OCF) is equal to a firm's net operating profits after taxes minus all non-cash charges.

Answer: <https://biology-forums.com/index.php?topic=575651>

Question 2336

The effective interest rate on a bank loan depends on whether interest is paid when the loan matures or in advance.

Answer: <https://biology-forums.com/index.php?topic=577635>

Question 2337

Restrictive covenants, coupled with standard debt provisions, help the lender to monitor the borrower's activities to ensure efficient use of funds.

Answer: <https://biology-forums.com/index.php?topic=576002>

Question 2338

How much would Sophie have in her account at the end of 10 years if she deposit \$2,000 into the account today if she earned 8 percent interest and interest is compounded continuously?

- A) \$4,317
- B) \$4,134
- C) \$4,451
- D) \$4,521

Answer: <https://biology-forums.com/index.php?topic=575862>

Question 2339

A financial planning process begins with short-term, or operating, plans and budgets that in turn guide the formulation of long-term, or strategic, financial plans.

Answer: <https://biology-forums.com/index.php?topic=575692>

Question 2340

The base level of EBIT must be held constant to compare the financial leverage associated with different levels of fixed financial costs.

Answer: <https://biology-forums.com/index.php?topic=577024>

Question 2341

Time value of money is based on the belief that a dollar that will be received at some future date is worth more than a dollar today.

Answer: <https://biology-forums.com/index.php?topic=575771>

Question 2342

Financial leverage results from the presence of variable financial costs in a firm's income stream.

Answer: <https://biology-forums.com/index.php?topic=577027>

Question 2343

Harry's Sheds has ten different items in its finished goods inventory. The average number of units held in inventory and the average unit cost are listed for each item. The firm uses an ABC system of inventory control.

- (a) Which items should be considered to be in the A category of an ABC system of inventory?
- (b) Which items should be considered to be in the B category of an ABC system of inventory?

Answer: <https://biology-forums.com/index.php?topic=577438>

Question 2344

Breakeven cash inflow refers to _____.

- A) the minimum level of cash inflow necessary for a project to be acceptable, that is, NPV greater than zero
- B) the minimum level of cash inflow necessary for a project to be acceptable, that is, NPV less than zero
- C) the minimum level of cash inflow necessary for a project to be acceptable, that is, IRR less than zero cost of capital
- D) the minimum level of cash inflow necessary for a project to be acceptable, that is, IRR equals zero

Answer: <https://biology-forums.com/index.php?topic=576897>

Question 2345

The riskiness of publicly traded bond issues is rated by independent agencies. According to Moody's rating system, an Aaa bond and a Caa bond are _____ and _____ respectively.

- A) speculative; investment grade

- B) prime quality; medium grade
- C) prime quality; speculative
- D) medium grade; lowest grade

Answer: <https://biology-forums.com/index.php?topic=576070>

Question 2346

The residual theory of dividends suggests that _____.

- A) different payout policies attract different types of investors but still do not change the value of a firm
- B) dividends are irrelevant in determining the value of a firm
- C) as long as a firm's equity need exceeds the amount of retained earnings, no cash dividend is paid
- D) the payout policies of different firms have no impact on the taxes that investors have to pay

Answer: <https://biology-forums.com/index.php?topic=577213>

Question 2347

Which of the following is true of a Eurodollar deposit?

- A) Eurodollar deposits tend to provide yields below nearly all other marketable securities with similar maturities due to their low risk.
- B) Eurodollar deposits are non-negotiable and pay interest only at maturity, hence the yield is higher than on other marketable securities with similar maturities.
- C) Eurodollar deposits tend to provide yields above nearly all other marketable securities with similar maturities due to the higher risk.
- D) Eurodollar deposits tend to provide higher yields above nearly all other marketable securities with similar maturities due to the absence of an active secondary market.

Answer: <https://biology-forums.com/index.php?topic=577578>

Question 2348

In capital budgeting, the preferred approaches in assessing whether a project is acceptable are those that integrate time value procedures, risk and return considerations, and valuation concepts.

Answer: <https://biology-forums.com/index.php?topic=576666>

Question 2349

The primary economic principle used in managerial finance is _____.

- A) purchase power parity
- B) asset pricing theory
- C) Porter's theory of five forces
- D) marginal cost-benefit analysis

Answer: <https://biology-forums.com/index.php?topic=575302>

Question 2350

Jia's Kitchen Stuff has recently sold 1,000 shares of preferred stock. What is the value of the stock assuming 10 percent required rate of return and a preferred dividend of \$6.75?

Answer: <https://biology-forums.com/index.php?topic=576309>

Question 2351

Should financing costs such as the returns paid to bondholders and stockholders be considered in computing after-tax operating cash flows? Why or why not?

Answer: <https://biology-forums.com/index.php?topic=576817>

Question 2352

Financial mergers involve merging firms in order to achieve various economies of scale by eliminating redundant functions, increasing market share, and improving raw material sourcing and finished product distribution.

Answer: <https://biology-forums.com/index.php?topic=577959>

Question 2353

In ratio analysis, a comparison to a standard industry ratio is made to isolate _____ deviations from the norm.

- A) greater than average
- B) negative
- C) marginal
- D) standard

Answer: <https://biology-forums.com/index.php?topic=575534>

Question 2354

In a revolving credit agreement, the firm pays interest on _____.

- A) the full line of credit
- B) the unused portion of the line of credit
- C) the amount actually borrowed and compensating balance
- D) the amount actually borrowed and commitment fees on any unused portion of the loan

Answer: <https://biology-forums.com/index.php?topic=577678>

Question 2355

A fixed-rate loan is a loan whose rate of interest is established at a fixed increment above the prime rate and is allowed to vary above the prime rate only when the prime rate varies until maturity.

Answer: <https://biology-forums.com/index.php?topic=577643>

Question 2356

A firm has an outstanding 15-year convertible bond issue with a \$1,000 par value and a stated annual interest rate of 7 percent. The bond is convertible into 50 shares of common stock which has a current market price of \$15. A straight bond could have been sold with a 10 percent stated interest rate. The market value of the bond is _____.

- A) \$750
- B) \$772 at the minimum
- C) \$1,250 at the minimum
- D) \$1,000

Answer: <https://biology-forums.com/index.php?topic=577876>

Question 2357

FASB No. 52 requires U.S. multinationals to first convert the financial statement accounts of foreign subsidiaries into their functional currency and then to translate the accounts into the parent firm's currency using the all-current-rate method.

Answer: <https://biology-forums.com/index.php?topic=578175>

Question 2358

The result of spin-off to the parent company is _____.

- A) additional stock to the parent through stock dividend
- B) additional cash from the sale
- C) additional debt by the parent through issue of bonds
- D) no additional cash to the subsidiary

Answer: <https://biology-forums.com/index.php?topic=578047>

Question 2359

Changes in risk aversion, and therefore shifts in the SML, result from changing tastes and preferences of investors, which generally result from various economic, political, and social events.

Answer: <https://biology-forums.com/index.php?topic=576515>

Question 2360

Spontaneous liabilities such as accounts payable and accruals represent a source of financing that arise from the normal course of business.

Answer: <https://biology-forums.com/index.php?topic=577588>

Question 2361

Operating leverage is defined as the use of fixed operating costs to magnify the effects of changes in sales on a firm's earnings before interest and taxes.

Answer: <https://biology-forums.com/index.php?topic=577013>

Question 2362

The Sarbanes-Oxley Act of 2002 was passed in response to _____.

- A) insider trading activities
- B) false disclosures in financial reporting
- C) the decline in technology stocks
- D) the agency issue

Answer: <https://biology-forums.com/index.php?topic=575332>

Question 2363

Factoring accounts receivable is relatively an inexpensive source of unsecured short-term funds.

Answer: <https://biology-forums.com/index.php?topic=577727>

Question 2364

A decrease in collection efforts will result in an increase in sales volume, an increase in the investment in accounts receivable, an increase in bad debt expenses, and a decrease in collection expenditures.

Answer: <https://biology-forums.com/index.php?topic=577493>

Question 2365

The primary purpose in preparing pro forma financial statements is _____.

- A) for cash planning
- B) to ensure the ability to pay dividends
- C) for risk analysis
- D) for profit planning

Answer: <https://biology-forums.com/index.php?topic=575746>

Question 2366

Poor capital structure decisions can result in _____ the cost of capital, resulting in _____ acceptable investments.

- A) increasing; fewer
- B) decreasing; more
- C) increasing; more
- D) decreasing; fewer

Answer: <https://biology-forums.com/index.php?topic=577136>

Question 2367

A sole proprietor has unlimited liability; his or her total investment in the business, but not his or her personal assets, can be taken to satisfy creditors.

Answer: <https://biology-forums.com/index.php?topic=575230>

Question 2368

In a bond indenture, subordination is the stipulation that subsequent creditors agree to wait until all claims of the senior debt are satisfied.

Answer: <https://biology-forums.com/index.php?topic=576004>

Question 2369

Which of the following is true of accrual basis accounting?

- A) Expenses are recognized either when they are incurred or cash is paid.
- B) Revenue is recognized when a customer pays cash.
- C) Expenses are recognized when they are incurred.
- D) Revenue is recognized when a customer pays cash or shows interest to purchase the product or service.

Answer: <https://biology-forums.com/index.php?topic=575297>

Question 2370

If the expected return is less than the required return, investors will sell the asset, because it is not expected to earn a return commensurate with its risk.

Answer: <https://biology-forums.com/index.php?topic=576280>

Question 2371

In planning and managing the requirements of a firm, the financial manager is concerned with _____.

- A) the mix and type of assets, but not the type of financing utilized
- B) the type of financing utilized, but not the mix and type of assets
- C) the acquisition of fixed assets, allowing someone else to plan the level of current assets required, and the market value of the share
- D) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition

Answer: <https://biology-forums.com/index.php?topic=575321>

Question 2372

The purpose of the restrictive debt covenant that requires that subsequent borrowing be subordinated to the original loan is to _____.

- A) maintain a minimum level of liquidity

- B) limit the amount of fixed-payment obligations
- C) ensure a long-run cash shortage does not cause an inability to meet current obligations
- D) protect the original lender in the priority of claims during liquidation

Answer: <https://biology-forums.com/index.php?topic=576023>

Question 2373

A record collector has agreed to sell her entire collection to a historical museum in three years at a price of \$100,000. The current risk-free rate is 7 percent. At what price should she value her collection today?

Answer: <https://biology-forums.com/index.php?topic=576109>

Question 2374

A firm's year-end retained earnings balance are \$670,000 and \$560,000 for 2014 and 2015, respectively. The firm reported net profits after taxes of \$100,000 in 2015. The firm paid dividends of _____ in 2015.

- A) \$10,000
- B) \$100,000
- C) \$110,000
- D) \$210,000

Answer: <https://biology-forums.com/index.php?topic=575499>

Question 2375

A firm's capital structure is the mix of short-term liabilities and long-term debt.

Answer: <https://biology-forums.com/index.php?topic=577063>

Question 2376

Interest rate risk is the risk that results from the changes in interest rates and thereby impact the bond value.

Answer: <https://biology-forums.com/index.php?topic=576113>

Question 2377

What is the yield to maturity, to the nearest percent, for the following bond: current price is \$908, coupon rate is 11 percent, \$1,000 par value, interest paid annually, eight years to maturity?

- A) 11 percent
- B) 12 percent
- C) 13 percent
- D) 14 percent

Answer: <https://biology-forums.com/index.php?topic=576158>

Question 2378

Mark must buy four new tires for his car. He is considering buying tires that are \$25 a piece more than his regular brand, because the higher priced tires are supposed to increase his miles per gallon by 20%. If the tires are good for 48,000 miles and Mark drives an average of 1,000 miles per month, gas costs \$2.50 per gallon over the next 4 years, and Mark's car gets 30 miles to the gallon now (on the old tires), should Mark purchase the more expensive tires?

- A) Yes, because Mark will save about \$660 dollars in gas over the four years but the new tires will only be \$100 more.
- B) Yes, because Mark will save about \$560 dollars in gas over the four years but the new tires will only be \$100 more.
- C) No, because Mark will only save about \$60 dollars in gas over the four years but the new tires will only be \$100 more.
- D) No, because Mark will only save about \$90 dollars in gas over the four years but the new tires will only be \$100 more.

Answer: <https://biology-forums.com/index.php?topic=577012>

Question 2379

The objective of capital rationing is to select the group of projects that provides the quickest overall payback and does not require more dollars than are budgeted.

Answer: <https://biology-forums.com/index.php?topic=576944>

Question 2380

Revenue stability affects _____.

- A) dividend risk
- B) maturity risk
- C) business risk
- D) interest rate risk

Answer: <https://biology-forums.com/index.php?topic=577112>

Question 2381

In the traditional approach to capital structure, as the amount of debt increases in a firm's capital structure, _____.

- A) the cost of equity rises faster than the cost of debt
- B) the cost of debt rises faster than the cost of equity
- C) debt becomes less risky
- D) equity cost is unaffected

Answer: <https://biology-forums.com/index.php?topic=577138>

Question 2382

The dollar breakeven sales level can be solved for by dividing fixed costs by the contribution margin ratio.

Answer: <https://biology-forums.com/index.php?topic=576965>

Question 2383

The federal regulatory body governing the sale and listing of securities is called the _____.

- A) IRS
- B) FASB
- C) GAAP
- D) SEC

Answer: <https://biology-forums.com/index.php?topic=575467>

Question 2384

Revolving credit agreements are _____.

- A) guaranteed loans that specify the maximum amount that a firm can owe the bank at any point in time
- B) non-guaranteed loans that specify the maximum amount that a firm can owe the bank at any one time
- C) credit arrangements made in cooperation with suppliers that allows a firm to roll over accounts payable each month
- D) short-term, unsecured promissory notes issued by a firm with a high credit standing

Answer: <https://biology-forums.com/index.php?topic=577686>

Question 2385

Which of the following is true of sole proprietorships and corporations?

- A) It is difficult to transfer ownership of corporations compared to that of sole proprietorships.
- B) Income from both forms of organizations are taxed only at the corporate level.
- C) Both sole proprietorships and corporations are equally scrutinized and regulated by government bodies.
- D) In sole proprietorships, owners have unlimited liability; whereas, in corporations, owners have limited liability.

Answer: <https://biology-forums.com/index.php?topic=575242>

Question 2386

The price of a bond with a fixed coupon rate and the required return have a relationship that is best described as _____.

- A) perfect positive correlation
- B) constant
- C) direct
- D) inverse

Answer: <https://biology-forums.com/index.php?topic=576135>

Question 2387

The prime rate of interest fluctuates with changing supply-and-demand relationships for short-term funds.

Answer: <https://biology-forums.com/index.php?topic=577636>

Question 2388

Ratios merely direct an analyst to potential areas of concern and it does not provide conclusive evidence as to the existence of a problem.

Answer: <https://biology-forums.com/index.php?topic=575516>

Question 2389

Bill plans to fund his individual retirement account (IRA) with the maximum contribution of \$2,000 at the end of each year for the next 20 years. If Bill can earn 12 percent on his contributions, how much will he have at the end of the twentieth year?

- A) \$19,292
- B) \$14,938
- C) \$40,000

D) \$144,104

Answer: <https://biology-forums.com/index.php?topic=575803>

Question 2390

Generally, increases in leverage result in _____ return and _____ risk.

- A) decreased; increased
- B) decreased; decreased
- C) increased; increased
- D) increased; decreased

Answer: <https://biology-forums.com/index.php?topic=576984>

Question 2391

Based on the Table 6.1, assume this bond's face value is \$1,000. What is the bond's current market price?

- A) \$65.00
- B) \$655.00
- C) \$650.00
- D) \$6,550.00

Answer: <https://biology-forums.com/index.php?topic=576096>

Question 2392

A firm's _____ is the level of sales necessary to cover all operating costs, i.e., the point at which EBIT equals zero.

- A) cash breakeven point
- B) financial breakeven point
- C) operating breakeven point
- D) total breakeven point

Answer: <https://biology-forums.com/index.php?topic=576990>

Question 2393

The repurchase of common stock results in a type of reverse dilution, since the earnings per share and the market price of stock are increased by reducing the number of shares outstanding.

Answer: <https://biology-forums.com/index.php?topic=577175>

Question 2394

The sale of a new security directly to an investor or a group of investors is called _____.

- A) arbitraging
- B) short selling
- C) a capital market transaction
- D) a private placement

Answer: <https://biology-forums.com/index.php?topic=575365>

Question 2395

Total asset turnover commonly measures the liquidity of a firm's total assets.

Answer: <https://biology-forums.com/index.php?topic=575555>

Question 2396

The shares traded publicly in an efficient market are _____.

- A) generally positively affected by diversification, because of the reduction in risk
- B) generally negatively affected by diversification, because of the increase in risk
- C) generally not affected by diversification, unless greater returns are expected
- D) generally negatively affected by diversification, because of the increase in the required rate of return

Answer: <https://biology-forums.com/index.php?topic=576934>

Question 2397

Commercial paper is a short-term loan issued by commercial banks that have variable yields based on size, maturity, and prevailing money market conditions.

Answer: <https://biology-forums.com/index.php?topic=577532>

Question 2398

Which of the following forms of organizations is the easiest to form?

- A) sole proprietorships
- B) limited liability corporation
- C) limited partnership
- D) S-corporations

Answer: <https://biology-forums.com/index.php?topic=575236>

Question 2399

A firm issued 10,000 shares of \$2 par-value common stock, receiving proceeds of \$40 per share. The amount recorded for the paid-in capital in excess of par account is _____.

- A) \$420,000
- B) \$380,000
- C) \$400,000
- D) \$800,000

Answer: <https://biology-forums.com/index.php?topic=576257>

Question 2400

Rapidly growing firms pay high dividends to shareholders.

Answer: <https://biology-forums.com/index.php?topic=577164>

Question 2401

The IRR is the discount rate that equates the NPV of an investment opportunity with \$0.

Answer: <https://biology-forums.com/index.php?topic=576762>

Question 2402

Tangshan Mining borrowed \$100,000 for one year under a line of credit with a stated interest rate of 7.5 percent and a 15 percent compensating balance. Normally, the firm keeps almost no money in its checking account. Based on this information, the effective annual interest rate on the loan is _____.

- A) 7.5%
- B) 8.0%
- C) 8.8%
- D) 7.2%

Answer: <https://biology-forums.com/index.php?topic=577684>

Question 2403

The more predictable a firm's cash inflows, the more net working capital it will need.

Answer: <https://biology-forums.com/index.php?topic=577296>

Question 2404

An asset was purchased three years ago for \$100,000 and can be sold for \$40,000 today. The asset has been depreciated using the MACRS 5-year recovery period and the firm pays 40 percent taxes on both ordinary income and capital gain.

- (a) Compute recaptured depreciation and capital gain (loss), if any.
- (b) Find the firm's tax liability.

Answer: <https://biology-forums.com/index.php?topic=576871>

Question 2405

If an inventory turnover is divided into 365, it becomes a measure of _____.

- A) financial efficiency
- B) the average age of the inventory
- C) sales turnover
- D) the average collection period

Answer: <https://biology-forums.com/index.php?topic=575566>

Question 2406

The cash conversion cycle of a firm is the length of time from the beginning of the production process to the collection of cash from the sale of finished products.

Answer: <https://biology-forums.com/index.php?topic=577321>

Question 2407

Cash disbursements include _____.

- A) amortization expense
- B) rent payments
- C) depreciation expense
- D) depletion

Answer: <https://biology-forums.com/index.php?topic=575736>

Question 2408

A college received a contribution to its endowment fund of \$2 million. It can never touch the principal, but can use the earnings. At an assumed interest rate of 9.5 percent, how much can the college earn to help its operations each year?

- A) \$95,000
- B) \$19,000
- C) \$190,000
- D) \$18,000

Answer: <https://biology-forums.com/index.php?topic=575810>

Question 2409

Modigliani and Miller argue that when a firm has no acceptable investment opportunities, it should _____.

- A) preserve the funds and not declare dividends
- B) distribute the surplus funds to the owners
- C) lower its cost of capital
- D) retain the funds until an acceptable project arises

Answer: <https://biology-forums.com/index.php?topic=577217>

Question 2410

For conventional projects, both NPV and IRR techniques will always generate the same accept-reject decision.

Answer: <https://biology-forums.com/index.php?topic=576776>

Question 2411

The tax deductibility of interest lowers the cost of debt financing, thereby causing the cost of debt financing to be lower than the cost of equity financing.

Answer: <https://biology-forums.com/index.php?topic=576164>

Question 2412

Bondholders will convert their convertible bonds into shares of stock only when the conversion price is greater than the market price of the stock.

Answer: <https://biology-forums.com/index.php?topic=576035>

Question 2413

What annual rate of return would Jia need to earn if she deposits \$20,000 per year into an account beginning one year from today in order to have a total of \$1,000,000 in 30 years?

- A) 2.3%
- B) 3.3%
- C) 1.3%
- D) 4.3%

Answer: <https://biology-forums.com/index.php?topic=575912>

Question 2414

An upward-sloping yield curve that indicates cheaper short-term borrowing costs than long-term borrowing costs is called as _____.

- A) normal yield curve
- B) inverted yield curve
- C) flat yield curve
- D) lognormal yield curve

Answer: <https://biology-forums.com/index.php?topic=575978>

Question 2415

In ratio analysis, the financial statements being used for comparison should be dated at the same point in time during the year. If not, the effect of seasonality may produce erroneous conclusions and decisions.

Answer: <https://biology-forums.com/index.php?topic=575519>

Question 2416

One aspect of risk associated with the aggressive strategy's maximum use of short-term financing is the fact that changing short-term interest rates can result in significantly higher borrowing.

Answer: <https://biology-forums.com/index.php?topic=577337>

Question 2417

_____ is used to finance "rolling stock"—airplanes, trucks, boats, railroad cars.

- A) Income bonds
- B) Equipment trust certificates
- C) Collateral trust bonds
- D) Subordinated debentures

Answer: <https://biology-forums.com/index.php?topic=576072>

Question 2418

A firm has issued cumulative preferred stock with a \$100 par value and a 12 percent annual dividend. For the past two years, the board of directors has decided not to pay a dividend. At the end of the current year, the preferred stockholders must be paid _____ prior to paying the common stockholders.

- A) \$0/share
- B) \$12/share
- C) \$24/share
- D) \$36/share

Answer: <https://biology-forums.com/index.php?topic=576219>

Question 2419

The number of authorized shares of common stock is always greater than or equal to the number of outstanding shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=576177>

Question 2420

An increase in the average payment period will _____ the operating cycle and _____ the cash conversion cycle.

- A) increase; decrease
- B) decrease; decrease
- C) decrease; not affect
- D) not affect; decrease

Answer: <https://biology-forums.com/index.php?topic=577378>

Question 2421

The _____ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies.

- A) board of directors
- B) chief financial officer
- C) stockholders
- D) creditors

Answer: <https://biology-forums.com/index.php?topic=575335>

Question 2422

The key input to any cash budget is _____.

- A) the sales forecast
- B) the production plan
- C) the pro forma balance sheet
- D) the current tax laws

Answer: <https://biology-forums.com/index.php?topic=575734>

Question 2423

The wealth of the owners of a corporation is represented by _____.

- A) profits
- B) earnings per share
- C) share value
- D) cash flow

Answer: <https://biology-forums.com/index.php?topic=575257>

Question 2424

The financial manager of a firm prepares financial statements that recognize revenue at the point of sale and expenses when incurred.

Answer: <https://biology-forums.com/index.php?topic=575289>

Question 2425

An attractive candidate for acquisition through leveraged buyout usually has a relatively high level of debt and a low level of "bankable" assets.

Answer: <https://biology-forums.com/index.php?topic=578017>

Question 2426

A bond will sell _____ when the stated rate of interest exceeds the required rate of return, _____ when the stated rate of interest is less than the required return, and _____ when the stated rate of interest is equal to the required return.

- A) at a premium; at a discount; equal to the par value
- B) at a premium; equal to the par value; at a discount
- C) at a discount; at a premium; equal to the par value
- D) equal to the par value; at a premium; at a discount

Answer: <https://biology-forums.com/index.php?topic=576143>

Question 2427

An efficient portfolio is one that _____.

- A) guarantees a predetermined rate of return
- B) maximizes return for a given level of risk
- C) consists of a single asset, which gives maximum return
- D) maximizes return at all risk levels

Answer: <https://biology-forums.com/index.php?topic=576425>

Question 2428

One advantage of leasing is that in many cases, the return to the lessor is quite low so the firm in need of an asset might be better off borrowing to purchase it.

Answer: <https://biology-forums.com/index.php?topic=577790>

Question 2429

Investors purchase a stock when they believe that it is undervalued and sell when they feel that it is overvalued.

Answer: <https://biology-forums.com/index.php?topic=576273>

Question 2430

A corporation raises \$500,000 in long-term debt to acquire additional plant capacity. This is considered as _____.

- A) an investment cash flow
- B) a financing cash flow
- C) a financing cash flow and investment cash flow, respectively
- D) a financing cash flow and operating cash flow, respectively

Answer: <https://biology-forums.com/index.php?topic=575676>

Question 2431

A firm has a cash conversion cycle of 80 days, an average collection period of 25 days, and an average age of inventory of 70 days. Its operating cycle is _____ days.

- A) 95
- B) 105
- C) 60
- D) 130

Answer: <https://biology-forums.com/index.php?topic=577351>

Question 2432

A financial manager must choose between three alternative investments. Each asset is expected to provide earnings over a three-year period as described below. Based on the wealth maximization goal, the financial manager would _____.

- A) choose Asset 1
- B) choose Asset 2
- C) choose Asset 3
- D) be indifferent between Asset 1 and Asset 2

Answer: <https://biology-forums.com/index.php?topic=575274>

Question 2433

A capital expenditure is an outlay of funds invested only in fixed assets that is expected to produce benefits over a period of time less than one year.
Answer: <https://biology-forums.com/index.php?topic=576656>

Question 2434

The motive for divestiture is often to get rid of a poorly performing operation in order to generate cash for expansion of other product lines.
Answer: <https://biology-forums.com/index.php?topic=578026>

Question 2435

Fixed assets are the most desirable short-term-loan collateral since they normally have a longer life, or duration, than the term of the loan.
Answer: <https://biology-forums.com/index.php?topic=577712>

Question 2436

A firm has the following accounts and financial data for 2014:
The firm's earnings available to common shareholders for 2014 is _____.
A) -\$224.25
B) \$195.40
C) \$302.40
D) \$516.60
Answer: <https://biology-forums.com/index.php?topic=575489>

Question 2437

A debenture is _____.
A) a bond secured by specific assets that any firm can issue
B) a secured bond that is secured by unspecified assets
C) a secured bond issued by startup firms
D) an unsecured bond that only creditworthy firms can issue
Answer: <https://biology-forums.com/index.php?topic=576083>

Question 2438

In defending against hostile takeover attempts, a company will include provisions in the employment contracts of key executives that provide them with sizable compensation if the firm is taken over. This is called the _____ strategy.
A) shark repellent
B) silver parachute
C) greenmail
D) golden parachute
Answer: <https://biology-forums.com/index.php?topic=578105>

Question 2439

A merger involving the purchase of a specific product line, rather than the whole company is _____.
A) an operating merger
B) a financial merger
C) a selective lines merger
D) a variation of the strategic merger
Answer: <https://biology-forums.com/index.php?topic=577992>

Question 2440

A constant-payout-ratio dividend policy is based on the payment of a certain percentage of earnings to owners in each dividend period.
Answer: <https://biology-forums.com/index.php?topic=577248>

Question 2441

Cash flows that result from debt and equity financing transactions, including incurrence and repayment of debt, cash inflows from the sale of stock, and cash outflows to pay cash dividends or repurchase stock are called cash flow from _____.
A) operating activities
B) investment activities
C) financing activities
D) miscellaneous activities
Answer: <https://biology-forums.com/index.php?topic=575674>

Question 2442

In establishing a dividend policy, a firm should retain funds for investment in projects yielding higher returns than the owners could obtain from external investments of equal risk.

Answer: <https://biology-forums.com/index.php?topic=577232>

Question 2443

The conservative funding strategy is a strategy by which a firm finances at least its seasonal requirements, and possibly some of its permanent requirements, with short-term funds and the balance of its permanent requirements with long-term funds.

Answer: <https://biology-forums.com/index.php?topic=577335>

Question 2444

As financial leverage increases, the cost of debt initially remains constant and then rises, while the cost of equity always rises.

Answer: <https://biology-forums.com/index.php?topic=577130>

Question 2445

The advantages of holding companies include _____.

- A) reduced federal corporate taxes due to the holding company status
- B) decreased risk resulting from the leverage effect
- C) possible state tax benefits realized by each subsidiary in its state of incorporation
- D) low cost of administration

Answer: <https://biology-forums.com/index.php?topic=578112>

Question 2446

Which of the following is the purest and most basic form of corporate ownership?

- A) bond
- B) notes
- C) common stock
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=575240>

Question 2447

Given the returns of two stocks J and K in the table below over the next 4 years. Find the expected return and standard deviation of holding a portfolio of 40% of stock J and 60% in stock K over the next 4 years:

	Stock J	Stock K
2010	10%	9%
2011	12%	8%
2012	13%	10%
2013	15%	11%

- A) 10.7% and 1.34%
- B) 10.6% and 1.79%
- C) 10.6% and 1.16%
- D) 14.3% and 2.02%

Answer: <https://biology-forums.com/index.php?topic=576427>

Question 2448

The rate of return earned on an investment of \$50,000 today that guarantees an annuity of \$10,489 for six years is approximately _____.

- A) 5%
- B) 7%
- C) 10%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=575889>

Question 2449

The level of dividends a firm expects to pay is generally unrelated to how rapidly it expects to grow as well as the level of asset investments required.

Answer: <https://biology-forums.com/index.php?topic=577230>

Question 2450

Higher the riskiness of a borrower, higher is the premium charged above the prime rate by a banker.

Answer: <https://biology-forums.com/index.php?topic=577648>

Question 2451

Self-sustaining foreign entity operates independent of the parent multinational and the current-rate method is the primary approach for translation of individual accounts.

Answer: <https://biology-forums.com/index.php?topic=578177>

Question 2452

If an investor buys a 100-share put option for \$150 with an exercise price of \$38 and the underlying price per share of the stock at expiration is \$39, what is the amount of profit or loss, ignoring brokerage fees?

- A) There would be a profit of \$250.
- B) There would be a profit of \$150.
- C) There would be a loss of \$250.
- D) There would be a loss of \$150.

Answer: <https://biology-forums.com/index.php?topic=577937>

Question 2453

_____ ratios are a measure of the speed with which various accounts are converted into sales or cash.

- A) Activity
- B) Liquidity
- C) Debt
- D) Profitability

Answer: <https://biology-forums.com/index.php?topic=575563>

Question 2454

Sensitivity analysis is a statistics-based approach used in capital budgeting to assess risk by applying predetermined probability distributions and random numbers to estimate risky outcomes.

Answer: <https://biology-forums.com/index.php?topic=576891>

Question 2455

A firm with highly unpredictable sales revenue would best choose _____ funding strategy to minimize risk.

- A) the aggressive
- B) the conservative
- C) the trade-off
- D) a seasonal

Answer: <https://biology-forums.com/index.php?topic=577371>

Question 2456

The key securities traded in the capital markets are _____.

- A) commercial papers and Treasury bills
- B) Treasury bills and certificates of deposit
- C) stocks and bonds
- D) bills of exchange and commercial papers

Answer: <https://biology-forums.com/index.php?topic=575382>

Question 2457

In a _____, the lessor acts as an equity participant supplying part of the necessary capital while a lender supplies the remaining balance.

- A) direct lease
- B) leveraged lease
- C) sale-leaseback
- D) mortgage

Answer: <https://biology-forums.com/index.php?topic=577805>

Question 2458

A compensating balance is a balance in checking account that is equal to a certain percentage of the borrower's short-term unsecured loan.

Answer: <https://biology-forums.com/index.php?topic=577645>

Question 2459

A preferred approach for risk adjustment of capital budgeting cash flows, from a practical viewpoint, is _____.

- A) sensitivity analysis
- B) simulation analysis
- C) scenario analysis
- D) risk-adjusted discount rates

Answer: <https://biology-forums.com/index.php?topic=576932>

Question 2460

China America Manufacturing is evaluating two different operating structures which are described below. The firm has annual interest expense of \$250, common shares outstanding of 1,000, and a tax rate of 40 percent.

- (a) For each operating structure, calculate
 - (a1) EBIT and EPS at 10,000, 20,000, and 30,000 units.
 - (a2) the degree of operating leverage (DOL) and degree of total leverage (DTL) using 20,000 units as a base sales level.
 - (a3) the operating breakeven point in units.
- (b) Which operating structure has greater operating leverage and business risk?
- (c) If China America projects sales of 20,000 units, which operating structure is recommended?

Answer: <https://biology-forums.com/index.php?topic=577062>

Question 2461

Tangshan China's stock is currently selling for \$160.00 per share and the firm's dividends are expected to grow at 5 percent indefinitely. Assuming Tangshan China's most recent dividend was \$5.50, what is the required rate of return on Tangshan's stock?

- A) 7.3%
- B) 8.4%
- C) 9.5%
- D) 10.6%

Answer: <https://biology-forums.com/index.php?topic=576305>

Question 2462

One weakness of payback period approach is its failure to recognize cash flows that occur after the payback period.

Answer: <https://biology-forums.com/index.php?topic=576718>

Question 2463

_____ are popular vehicle used to finance mergers and takeovers.

- A) Income bonds
- B) Junk bonds
- C) Floating rate bonds
- D) Convertible debentures

Answer: <https://biology-forums.com/index.php?topic=576075>

Question 2464

A firm plans to retire outstanding bonds in the next planning period. Which of the following gets affected?

- A) pro forma income statement and pro forma balance sheet
- B) previous year income statement and previous year balance sheet
- C) previous year income statement and statement of retained earnings
- D) pro forma income statement and proxy statement

Answer: <https://biology-forums.com/index.php?topic=575750>

Question 2465

Which of the following is true of cash discount?

- A) It increases bad debts because after availing discounts all customers may not pay.
- B) It decreases the investment in accounts receivable and increases the per unit profit.
- C) It helps to speed up collections without putting pressure on customers.
- D) It reduces sales because the customers feel that the products are of inferior quality.

Answer: <https://biology-forums.com/index.php?topic=577502>

Question 2466

The risk of a portfolio containing international stocks generally does not contain less nondiversifiable risk than one that contains only domestic stocks.

Answer: <https://biology-forums.com/index.php?topic=576447>

Question 2467

The _____ financing strategy requires a firm to pay interest on excess funds borrowed but not needed throughout the entire year.

- A) aggressive
- B) conservative
- C) permanent
- D) seasonal

Answer: <https://biology-forums.com/index.php?topic=577392>

Question 2468

The stockholders' annual report must include _____.

- A) common-size financial statements
- B) an income statement
- C) an advance tax statement
- D) the margin of safety report

Answer: <https://biology-forums.com/index.php?topic=575468>

Question 2469

A real rate of interest is the compensation paid by the borrower of funds to the lender.

Answer: <https://biology-forums.com/index.php?topic=575939>

Question 2470

Utilizing past cost and expense ratios (percent-of-sales method) when preparing pro forma financial statements will tend to _____.

- A) understate profits when sales are decreasing and overstate profits when sales are increasing
- B) understate profits, no matter what the change in sales, as long as fixed costs are present
- C) understate profits when sales are increasing and overstate profits when sales are decreasing
- D) overstate profits, no matter what the change in sales, as long as fixed costs are present

Answer: <https://biology-forums.com/index.php?topic=575767>

Question 2471

Bankruptcy is business failure that occurs when a firm's liabilities exceed the fair market value of its assets.

Answer: <https://biology-forums.com/index.php?topic=578116>

Question 2472

A revolving credit agreement is a form of financing consisting of short-term, unsecured promissory notes issued by firms with a high credit standing.

Answer: <https://biology-forums.com/index.php?topic=577631>

Question 2473

In theory, the conservative financing strategy ignores _____.

- A) all current liabilities
- B) the spontaneous forms of short-term financing
- C) all current assets
- D) the high risk associated with external financing

Answer: <https://biology-forums.com/index.php?topic=577389>

Question 2474

A firm is offered credit terms of 1/10 net 45 EOM by a major supplier. The firm has determined that it can stretch the credit period (net period only) by 25 days without damaging its credit standing with the supplier. Assuming the firm needs short-term financing and can borrow from the bank on a line of credit at an interest rate of 14 percent, the firm should _____.

- A) give up the cash discount and finance the purchase with the line of credit
- B) give up the cash discount and pay on the 70th day after the date of sale
- C) take the cash discount and pay on the first day of the cash discount period
- D) take the cash discount and finance the purchase with the line of credit, the cheaper source of funds

Answer: <https://biology-forums.com/index.php?topic=577609>

Question 2475

_____ leverage is concerned with the relationship between sales revenue and earnings per share.

- A) Financial
- B) Operating
- C) Variable
- D) Total

Answer: <https://biology-forums.com/index.php?topic=577055>

Question 2476

_____ leases are noncancellable and are generally used for leasing land, buildings, and large pieces of fixed equipment.

- A) Financial
- B) Operating
- C) Leveraged
- D) Direct

Answer: <https://biology-forums.com/index.php?topic=577794>

Question 2477

By increasing collection expenditures, a firm can decrease bad debt losses up to a point, beyond which bad debts cannot be economically reduced.

Answer: <https://biology-forums.com/index.php?topic=577448>

Question 2478

Since depreciation and other noncash charges represent a scheduled write-off of an earlier cash outflow, they should not be included in the cash budget.

Answer: <https://biology-forums.com/index.php?topic=575717>

Question 2479

Uncle Tim's Inventions has an expected dividend next year of \$3.60 and a required return of 12 percent. Assuming the dividends will be paid indefinitely, calculate the value of a share of common stock assuming a zero growth rate of dividends.

Answer: <https://biology-forums.com/index.php?topic=576312>

Question 2480

Scenario analysis is a statistics-based behavioral approach that applies predetermined probability distributions and random numbers to estimate risky outcomes.

Answer: <https://biology-forums.com/index.php?topic=576887>

Question 2481

The primary motive for capital expenditures is to refurbish fixed assets.

Answer: <https://biology-forums.com/index.php?topic=576660>

Question 2482

Revolving credit agreements are non-guaranteed loans that specify the minimum amount that a firm can owe the bank at any point in time.

Answer: <https://biology-forums.com/index.php?topic=577654>

Question 2483

The key variables in the owner wealth maximization process are _____.

- A) market risk premium and risk
- B) cash flows and risk
- C) risk-free rate and share price
- D) total assets and risk

Answer: <https://biology-forums.com/index.php?topic=575264>

Question 2484

The Modified Accelerated Cost Recovery System (MACRS) is a depreciation method used for _____ purposes.

- A) tax
- B) financial reporting
- C) budget
- D) cost accounting

Answer: <https://biology-forums.com/index.php?topic=575633>

Question 2485

Meese Paper Distributors, Inc. has before-tax earnings of \$1,900,000. Calculate the amount of the total tax liability.

Range of taxable income Marginal rate
\$ 0 to \$ 50,000 15%
50,000 to 75,000 25

75,000 to 100,000 34
100,000 to 335,000 39
335,000 to 10,000,000 34
10,000,000 to 15,000,000 35
15,000,000 to 18,333,333 38

Answer: <https://biology-forums.com/index.php?topic=575435>

Question 2486

In a financial lease, the lessor must receive more than the asset's purchase price in order to earn its required return on the investment.

Answer: <https://biology-forums.com/index.php?topic=577774>

Question 2487

The cost of equity for Tangshan Mining would be 18.00 percent if the expected return on U.S. Treasury Bills is 5.00 percent, the market risk premium is 10.00 percent, and the firm's beta is 1.3.

Answer: <https://biology-forums.com/index.php?topic=576613>

Question 2488

Recaptured depreciation is the portion of the sale price that is in excess of the initial purchase price.

Answer: <https://biology-forums.com/index.php?topic=576850>

Question 2489

One of the key attributes that makes a firm a good candidate for an LBO is that it has stable and predictable cash flows that are adequate to meet interest and principal payments on the debt.

Answer: <https://biology-forums.com/index.php?topic=578020>

Question 2490

The Euromarket provides multinational companies with an external opportunity to borrow or lend funds with the additional feature of less government regulation.

Answer: <https://biology-forums.com/index.php?topic=578153>

Question 2491

A firm's operating cash flow (OCF) is defined as _____.

- A) gross profit minus operating expenses
- B) gross profit minus depreciation
- C) EBIT times one minus the tax rate plus depreciation
- D) EBIT plus depreciation

Answer: <https://biology-forums.com/index.php?topic=575660>

Question 2492

A conversion feature is an option that is included as part of a common stock issue that allows its holder to change the stock into a stated number of shares of preferred stock.

Answer: <https://biology-forums.com/index.php?topic=577814>

Question 2493

If the P/E paid for a target company is less than the P/E of the acquiring company, the effect on the earnings per share of the acquired company will be _____.

- A) positive
- B) neutral
- C) negative
- D) uncorrelated

Answer: <https://biology-forums.com/index.php?topic=578077>

Question 2494

ABC company has two bonds outstanding that are the same except for the maturity date. Bond D matures in 4 years, while Bond E matures in 7 years. If the required return changes by 5 percent, then _____.

- A) bond D will have a greater change in price
- B) bond E will have a greater change in price
- C) the price of the bonds will be constant
- D) the percentage price change for the bonds will be equal

Answer: <https://biology-forums.com/index.php?topic=576141>

Question 2495

If the P/E paid for a target company is equal to the P/E of the acquiring company, the effect on the earnings per share of the acquired company will be _____.

- A) positive
- B) neutral
- C) negative
- D) uncorrelated

Answer: <https://biology-forums.com/index.php?topic=578076>

Question 2496

Ken borrows \$15,000 from a bank at 10 percent annually compounded interest to be repaid in six equal installments. Calculate the interest paid in the second year.

Answer: <https://biology-forums.com/index.php?topic=575935>

Question 2497

A firm with a total asset turnover lower than industry standard may have _____.

- A) excessive debt
- B) excessive interest costs
- C) insufficient sales
- D) insufficient fixed assets

Answer: <https://biology-forums.com/index.php?topic=575578>

Question 2498

A firm that wants to expand or extend its operations in existing or new product areas may avoid many of the risks associated with the design, manufacture, and sale of additional or new product and remove a potential competitor by acquiring a suitable going concern.

Answer: <https://biology-forums.com/index.php?topic=578050>

Question 2499

The two basic types of risk associated with international cash flows are inflation and foreign exchange risks and political risks.

Answer: <https://biology-forums.com/index.php?topic=576908>

Question 2500

The cost of equity is greater than the cost of debt and increases with increasing financial leverage, but generally less rapidly than the cost of debt.

Answer: <https://biology-forums.com/index.php?topic=577128>

Question 2501

Which of the following is true of international equity markets?

- A) In the international equity market, corporations cannot raise capital through IPOs, instead they can raise capital by trading in the secondary market.
- B) In the international equity market, corporations can easily manipulate the price of the shares since it is not regulated by any regulatory bodies.
- C) In the international equity market, corporations can only sell blocks of shares to institutional investors from European Union.
- D) In the international equity market, corporations can sell blocks of shares to investors in a number of different countries simultaneously.

Answer: <https://biology-forums.com/index.php?topic=575383>

Question 2502

A strategic merger is a merger transaction undertaken with the goal of restructuring the acquired company in order to improve its cash flow and unlock its hidden value.

Answer: <https://biology-forums.com/index.php?topic=577962>

Question 2503

In the DuPont system of analysis, the return on equity is equal to _____.

- A) (net profit margin) × (total asset turnover)
- B) (stockholders' equity) × (financial leverage multiplier)
- C) (return on total assets) × (financial leverage multiplier)
- D) (return on total assets) × (total asset turnover)

Answer: <https://biology-forums.com/index.php?topic=575614>

Question 2504

Using the data from Table 8.3, what is the systematic risk for a portfolio with two-thirds of the funds invested in X and one-third invested in Y?

- A) 0.88
- B) 1.17
- C) 1.33
- D) 1.67

Answer: <https://biology-forums.com/index.php?topic=576497>

Question 2505

The standard deviation of a portfolio is a function of the standard deviations of the individual securities in the portfolio, the proportion of the portfolio invested in those securities, and the correlation between the returns of those securities.

Answer: <https://biology-forums.com/index.php?topic=576421>

Question 2506

Aunt Butch borrows \$19,500 from the bank at 8 percent annually compounded interest to be repaid in 10 equal annual installments. The interest paid in the third year is _____.

- A) \$1,336.00
- B) \$1,560.14
- C) \$2,906.11
- D) \$1,947.10

Answer: <https://biology-forums.com/index.php?topic=575906>

Question 2507

A corporate financial analyst must calculate the value of an asset which produces year-end annual cash flows of \$0 the first year, \$2,000 the second year, \$3,000 the third year, and \$2,500 the fourth year. Assuming a discount rate of 15 percent, what is the value of this asset?

Answer: <https://biology-forums.com/index.php?topic=576110>

Question 2508

Stockholders expect to earn higher rates of return on investments with lower risk and lower rates of return on investments with higher risk.

Answer: <https://biology-forums.com/index.php?topic=575253>

Question 2509

Which of the following is used to analyze a firm's financial performance over different years?

- A) time-series analysis
- B) break-even analysis
- C) gap analysis
- D) marginal analysis

Answer: <https://biology-forums.com/index.php?topic=575530>

Question 2510

In partnerships, owners have unlimited liability and may have to cover debts of other less financially sound partners.

Answer: <https://biology-forums.com/index.php?topic=575228>

Question 2511

Which of the following is a reason that makes NPV a better approach to capital budgeting on a purely theoretical basis?

- A) It measures the benefits relative to the relative amount invested.
- B) The reinvestment rate assumed by this method is reasonable.
- C) Financial decision makers are inclined to higher rates of return.
- D) Interest rates are expressed as annual rates of return.

Answer: <https://biology-forums.com/index.php?topic=576809>

Question 2512

The call privilege is generally not exercised until the conversion value of a security is _____ the call price.

- A) 5 to 10 percent below
- B) equal to
- C) 10 to 15 percent above
- D) 50 percent above

Answer: <https://biology-forums.com/index.php?topic=577855>

Question 2513

Nancy would like to accumulate \$10,000 by the end of 3 years from now to buy a sports car from her friend, Jim. She has \$2,500 now and would like to save equal annual end-of-year deposits to pay for the car. How much should she deposit at the end of each year in an account paying 8 percent interest to buy the car?

Answer: <https://biology-forums.com/index.php?topic=575933>

Question 2514

_____ are the major source of unsecured short-term financing for business firms.

- A) Accounts receivable
- B) Term loans
- C) Notes payable
- D) Accounts payable

Answer: <https://biology-forums.com/index.php?topic=577611>

Question 2515

The market segmentation theory suggests that the shape of the yield curve is determined by the supply and demand for funds within each maturity segment.

Answer: <https://biology-forums.com/index.php?topic=575953>

Question 2516

A sunk cost is a cash flow that could be realized from the best alternative use of an owned asset.

Answer: <https://biology-forums.com/index.php?topic=576821>

Question 2517

If a new asset is being considered as a replacement for an old asset, the relevant cash flows would be found by adding the operating cash flows from the old asset to the operating cash flows from the new asset.

Answer: <https://biology-forums.com/index.php?topic=576818>

Question 2518

Dorothy borrows \$10,000 from the bank. For a four-year loan, the bank requires annual end-of-year payments of \$3,223.73. The annual interest rate on the loan is _____.

- A) 9 percent
- B) 10 percent
- C) 11 percent
- D) 12 percent

Answer: <https://biology-forums.com/index.php?topic=575899>

Question 2519

Which of the following is a difference between common stock and bonds?

- A) Bondholders have a voice in management; common stockholders do not.
- B) Bondholders have a senior claim on assets and income relative to stockholders.
- C) Stocks have a stated maturity but bonds do not.
- D) Dividend paid to stockholders is tax-deductible but interest paid to bondholders are not.

Answer: <https://biology-forums.com/index.php?topic=576168>

Question 2520

Financial leverage is concerned with the relationship between a firm's earnings after interest and taxes and its common stock earnings per share.

Answer: <https://biology-forums.com/index.php?topic=576958>

Question 2521

On average in U.S., during the past 75 years, the return on U.S. Treasury bills has exceeded the return on long-term government bonds.

Answer: <https://biology-forums.com/index.php?topic=576397>

Question 2522

Factoring accounts receivable is not a form of secured short-term borrowing. It entails the sale of accounts receivable at a discount to obtain the required short-term funds.

Answer: <https://biology-forums.com/index.php?topic=577720>

Question 2523

Which of the following is true of a partnership and a corporation?

- A) In a corporation, income is taxed at the corporate level; whereas, in a partnership, income is taxed twice.
- B) In a partnership, income is taxed at the corporate level; whereas, in a corporation, income is taxed twice.
- C) Income from both forms of organizations are double-taxed.
- D) In a partnership, income is exempted from tax up to \$10 million; whereas, in a corporation, income is taxed twice.

Answer: <https://biology-forums.com/index.php?topic=575241>

Question 2524

_____ is the extent of an asset's risk. It is found by subtracting the pessimistic outcome from the optimistic outcome.

- A) Variance
- B) Standard deviation
- C) Probability distribution
- D) Range

Answer: <https://biology-forums.com/index.php?topic=576400>

Question 2525

Compensating balance is a checking account balance equal to a certain percentage of the amount borrowed from a bank under a line-of-credit or revolving credit agreement.

Answer: <https://biology-forums.com/index.php?topic=577632>

Question 2526

Draw a graph of a typical Treasury yield curve and discuss why it usually takes that shape.

Answer: <https://biology-forums.com/index.php?topic=575996>

Question 2527

In general, the greater the difference between the magnitude and/or timing of cash inflows, the greater the likelihood of conflicting ranking between NPV and IRR.

Answer: <https://biology-forums.com/index.php?topic=576787>

Question 2528

For firms that are in a financial position to take a cash discount, it is advisable to take the discount if the terms offered are 2/10 net 30.

Answer: <https://biology-forums.com/index.php?topic=577593>

Question 2529

Harry Corporation's common stock currently sells for \$180 per share. Harry just paid a dividend of \$10.18 and dividends are expected to grow at a constant rate of 6 percent forever. If the required rate of return is 12 percent, what will Harry Corporation's stock sell for one year from now?

- A) \$190.64
- B) \$187.04
- C) \$195.40
- D) \$179.84

Answer: <https://biology-forums.com/index.php?topic=576303>

Question 2530

The weighted average cost of capital refers to the cost of capital required for one additional dollar of financing.

Answer: <https://biology-forums.com/index.php?topic=576557>

Question 2531

Multinational companies are firms that have international assets but operations in domestic markets only and draw part of their total revenue and profits from such markets.

Answer: <https://biology-forums.com/index.php?topic=578159>

Question 2532

What would be the cost of new common stock equity for Tangshan Mining if the firm just paid a dividend of \$4.25, the stock price is \$55.00, dividends are expected to grow at 8.5 percent indefinitely, and flotation costs are \$6.25 per share?

- A) 17.22%
- B) 16.88%

- C) 9.46%
- D) 12.57%

Answer: <https://biology-forums.com/index.php?topic=576632>

Question 2533

A firm issued \$2 million worth of commercial paper that has a 90-day maturity and sells for \$1,900,000. The annual interest rate on the issue of commercial paper is _____ (assume 360 days in a year).

- A) 5.26 percent
- B) 10 percent
- C) 17.77 percent
- D) 21.05 percent

Answer: <https://biology-forums.com/index.php?topic=577703>

Question 2534

When maintaining appropriate inventory level, a purchasing manager should _____.

- A) keep the inventory level low, to ensure that the firm's money is not being unwisely invested in excess resources
- B) ensure that all orders could be filled quickly, eliminating the need for back orders due to stockouts
- C) implement the production plan to acquire the desired amount of finished goods available on time at a low cost
- D) maintain adequate amount of inventory on hand at desired times and at a favorable price

Answer: <https://biology-forums.com/index.php?topic=577416>

Question 2535

An analyst should be careful when conducting ratio analysis to ensure that _____.

- A) the overall performance of a firm is not judged on a single ratio
- B) the role of inflation is ignored
- C) ratios being compared should be calculated using financial statements dated at different points in time during the year
- D) different accounting procedures are used

Answer: <https://biology-forums.com/index.php?topic=575536>

Question 2536

_____ float results from the delay between the time when a customer deducts a payment from the checking account ledger and the time when the vendor actually receives the funds in a spendable form.

- A) Mail
- B) Processing
- C) Collection
- D) Disbursement

Answer: <https://biology-forums.com/index.php?topic=577548>

Question 2537

A firm has fixed operating costs of \$175,000, total sales revenue of \$3,000,000 and total variable costs of \$2,250,000. The firm's degree of operating leverage is _____.

- A) 0.77
- B) 1.30
- C) 0.81
- D) 4.29

Answer: <https://biology-forums.com/index.php?topic=577040>

Question 2538

Beta coefficient is an index that measures the degree of movement of an asset's return in response to a change in the market return.

Answer: <https://biology-forums.com/index.php?topic=576464>

Question 2539

The primary activity of a financial manager is _____.

- A) analyzing accrued earnings
- B) making an investment decision
- C) preparing organization charts
- D) auditing financial statements

Answer: <https://biology-forums.com/index.php?topic=575314>

Question 2540

One of the components of a cash conversion cycle is the average collection period.

Answer: <https://biology-forums.com/index.php?topic=577443>

Question 2541

An increase in current assets increases net working capital, thereby reducing the risk of insolvency.

Answer: <https://biology-forums.com/index.php?topic=577305>

Question 2542

The pecking order explanation of capital structure states that a hierarchy of financing exists for firms, in which retained earnings are employed first, followed by debt financing and finally by external equity financing.

Answer: <https://biology-forums.com/index.php?topic=577089>

Question 2543

_____ indicates the percentage of each sales dollar remaining after the firm has paid for its goods.

- A) Net profit margin
- B) Operating profit margin
- C) Gross profit margin
- D) Earnings available to common shareholders

Answer: <https://biology-forums.com/index.php?topic=575596>

Question 2544

The required total financing figures in the cash budget refer to the monthly changes in borrowing.

Answer: <https://biology-forums.com/index.php?topic=575722>

Question 2545

Utilizing past cost and expense ratios (percent-of-sales method) when preparing pro forma financial statements will tend to _____.

- A) understate profits when sales are decreasing
- B) understate profits when sales are increasing
- C) overstate profits when sales are increasing
- D) neither understate nor overstate profits

Answer: <https://biology-forums.com/index.php?topic=575766>

Question 2546

The _____ is an inventory management technique that compares production needs to available inventory balances and determines when orders should be placed for various material inputs.

- A) ABC system
- B) EOQ model
- C) MRP system
- D) JIT system

Answer: <https://biology-forums.com/index.php?topic=577432>

Question 2547

The cost of marginal bad debts is found by multiplying a firm's opportunity cost by the difference between the level of bad debts before and after the relaxation of credit standards.

Answer: <https://biology-forums.com/index.php?topic=577462>

Question 2548

An increase in nondiversifiable risk would _____.

- A) cause an increase in the beta and would lower the required return
- B) have no effect on the beta and would, therefore, cause no change in the required return
- C) cause an increase in the beta and would increase the required return
- D) cause a decrease in the beta and would, therefore, lower the required rate of return

Answer: <https://biology-forums.com/index.php?topic=576482>

Question 2549

Cash flows and risk are the key determinants in share price. Increased cash flow results in _____, other things remaining the same.

- A) a lower share price
- B) a higher share price
- C) an unchanged share price
- D) an undetermined share price

Answer: <https://biology-forums.com/index.php?topic=575265>

Question 2550

One basic weakness of the simplified pro forma approaches lies in the assumption that the firm's past financial condition is an accurate indicator of its future.

Answer: <https://biology-forums.com/index.php?topic=575764>

Question 2551

A firm has fixed operating costs of \$25,000, a per unit sales price of \$5, and a variable cost per unit of \$3. What is its operating breakeven point if it targets net operating income of \$10,000?

- A) 12,500 units
- B) 15,000 units
- C) 17,500 units
- D) 25,000 units

Answer: <https://biology-forums.com/index.php?topic=577009>

Question 2552

_____ are claims that are not satisfied until those of the creditors holding certain (senior) debts have been fully satisfied.

- A) Convertible debentures
- B) Subordinated debentures
- C) Mortgage bonds
- D) Collateral trust bonds

Answer: <https://biology-forums.com/index.php?topic=576091>

Question 2553

The net present value is found by subtracting a project's initial investment from the present value of its cash inflows discounted at a rate equal to the project's internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=576738>

Question 2554

_____ is the potential use of fixed operating costs to magnify the effects of changes in sales on earnings before interest and taxes.

- A) Financial leverage
- B) Operating leverage
- C) Operating budget
- D) Ratio analysis

Answer: <https://biology-forums.com/index.php?topic=577035>

Question 2555

The Jobs and Growth Tax Relief Reconciliation Act of 2009 significantly changed the tax treatment of corporate dividends for most taxpayers by dropping the tax rate to the rate applicable on capital gains, which is a maximum rate of 25%.

Answer: <https://biology-forums.com/index.php?topic=577179>

Question 2556

Calculate the value of a \$1,000 bond which has 10 years until maturity and pays quarterly interest at an annual coupon rate of 12 percent. The required return on similar-risk bonds is 20 percent.

- A) \$656.82
- B) \$835.45
- C) \$845.66
- D) \$2,201.08

Answer: <https://biology-forums.com/index.php?topic=576130>

Question 2557

A _____ is normally initiated by a firm that needs funds for operations. Here, lessors acquire leased assets by purchasing assets already owned by the lessee and leasing them back.

- A) direct lease

- B) leveraged lease
- C) sale-leaseback
- D) mortgage

Answer: <https://biology-forums.com/index.php?topic=577801>

Question 2558

By measuring how quickly a firm recovers its initial investment, the payback period gives implicit consideration to the time value of money and ignores the timing of cash flows.

Answer: <https://biology-forums.com/index.php?topic=576716>

Question 2559

Yongman Electronics has decided to invest \$10,000,000 in a new headquarters and needs to determine the best way to finance the construction. The firm currently has \$50,000,000 of 10 percent bonds and 4,000,000 common shares outstanding. The firm can obtain the \$10,000,000 of financing through a 10 percent bond issue or the sale of 1,000,000 shares of common stock. The firm has a 40 percent tax rate.

- (a) What is the degree of financial leverage for each plan at \$25,000,000 of EBIT?
- (b) What is the financial breakeven point for each plan?

Answer: <https://biology-forums.com/index.php?topic=577061>

Question 2560

The three basic types of risks associated with international cash flows are business and financial risks, inflation and exchange rate risks, and political risks.

Answer: <https://biology-forums.com/index.php?topic=578192>

Question 2561

An acquisition of a "cash-rich" company immediately increases the acquiring firm's borrowing power by decreasing its financial leverage.

Answer: <https://biology-forums.com/index.php?topic=577968>

Question 2562

In U.S., during the past 75 years, on an average the return on U.S. Treasury bills has exceeded the inflation rate.

Answer: <https://biology-forums.com/index.php?topic=576396>

Question 2563

Self-liquidating loans are mainly invested in productive assets (i.e., fixed assets) which provide the mechanism through which the loan is repaid.

Answer: <https://biology-forums.com/index.php?topic=577627>

Question 2564

Which of the following groups of ratios primarily measure risk?

- A) liquidity, activity, and profitability
- B) liquidity, profitability, and market
- C) liquidity, activity, and debt
- D) activity, debt, and profitability

Answer: <https://biology-forums.com/index.php?topic=575540>

Question 2565

Which of the following affects the cost of a bond?

- A) maturity of a bond
- B) dividend policy
- C) fixed assets purchased from the proceeds of bond issue
- D) money market regulations

Answer: <https://biology-forums.com/index.php?topic=576028>

Question 2566

Marginal cost-benefit analysis states that financial decisions should be made and actions should be taken only when the added benefits exceed the added costs.

Answer: <https://biology-forums.com/index.php?topic=575282>

Question 2567

A corporate controller is an officer responsible for a firm's financial activities such as financial planning and fund raising, making capital expenditure

decisions, and managing cash, credit, the pension fund, and foreign exchange.

Answer: <https://biology-forums.com/index.php?topic=575286>

Question 2568

The implementation of a pro-active ethics program is expected to result in _____.

- A) a positive corporate image and increased respect, but is not expected to affect cash flows
- B) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows
- C) a positive corporate image and increased respect, but is not expected to affect share price
- D) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price

Answer: <https://biology-forums.com/index.php?topic=575279>

Question 2569

Behavioral finance is a growing body of research that focuses on investor behavior and its impact on investment decisions and stock prices.

Answer: <https://biology-forums.com/index.php?topic=576284>

Question 2570

When warrants are used as "sweeteners" by a new firm, the firm is essentially allowing creditors to _____.

- A) vote along with common stockholders
- B) share the possible future success of the firm
- C) protect their interest
- D) receive extra income

Answer: <https://biology-forums.com/index.php?topic=577903>

Question 2571

The depreciable value of an asset, under MACRS, is the _____.

- A) current cost
- B) current cost minus salvage value
- C) the original cost plus installation
- D) the original cost plus installation costs, minus salvage value

Answer: <https://biology-forums.com/index.php?topic=575635>

Question 2572

Cash budget is a statement of a firm's planned inflows and outflows of cash that is used to estimate its long-term cash requirement.

Answer: <https://biology-forums.com/index.php?topic=575713>

Question 2573

ZhenYee Electronics, Inc. is considering the acquisition of Datamatic, Inc. at a cash price of \$5,000,000. Datamatic, Inc. has short-term liabilities of \$1,500,000. As a result of acquiring Datamatic, Inc., ZhenYee Electronics would also acquire rights to one major patent which would provide an estimated cash inflow of \$1,800,000 per year for the next eight years. The firm has a cost of capital of 12 percent. Would you recommend the cash acquisition?

Answer: <https://biology-forums.com/index.php?topic=578082>

Question 2574

The degree of operating leverage will increase if a firm decides to compensate its sales representatives with a fixed salary and bonus rather than with a pure percent-of-sales commission.

Answer: <https://biology-forums.com/index.php?topic=577014>

Question 2575

A firm has annual operating outlays of \$1,800,000 and a cash conversion cycle of 60 days. If the firm currently pays 12 percent for financing and reduces its cash conversion cycle to 50 days, the annual savings is _____. (Assume a 365-day year.)

- A) \$4,652.19
- B) \$3,065.86
- C) \$5,917.81
- D) \$2,160.23

Answer: <https://biology-forums.com/index.php?topic=577381>

Question 2576

Contingent securities such as convertibles, warrants, and stock options affect the reporting of a firm's earnings per share (EPS).

Answer: <https://biology-forums.com/index.php?topic=577820>

Question 2577

A friendly merger is a _____.

- A) merger in which the acquirer gains control of the target firm by buying sufficient shares through private placement
- B) merger in which the acquirer can attempt to gain control of the target firm by buying sufficient shares of the target firm in the marketplace.
- C) merger transaction that is endorsed by the target firm's management, approved by its stockholders, and easily consummated
- D) merger in which the target firm's management acts to deter rather than facilitate the acquisition

Answer: <https://biology-forums.com/index.php?topic=577987>

Question 2578

For the year ended December 31, 2014, a corporation had cash flow from operating activities of \$12,000, cash flow from investment activities of -\$10,000, and cash flow from financing activities of \$4,000. The statement of cash flows would show a _____.

- A) net decrease of \$18,000 in cash and marketable securities
- B) net decrease of \$6,000 in cash and marketable securities
- C) net increase of \$6,000 in cash and marketable securities
- D) net increase of \$2,000 in cash and marketable securities

Answer: <https://biology-forums.com/index.php?topic=575681>

Question 2579

The conversion feature permits a firm's capital structure to be changed without increasing the total financing.

Answer: <https://biology-forums.com/index.php?topic=577824>

Question 2580

The cost of giving up a cash discount on a credit purchase is _____.

- A) added on to the price of the goods in order to make payment quickly
- B) deducted from the price of the goods in order to make payment quickly
- C) the implied interest rate paid in order to delay payment for an additional number of days
- D) the true purchase price of the goods

Answer: <https://biology-forums.com/index.php?topic=577604>

Question 2581

While an earnings requirement limiting the amount of dividends paid is sometimes imposed, a firm is not prohibited from paying more in dividends than its current earnings.

Answer: <https://biology-forums.com/index.php?topic=577223>

Question 2582

The book value of an asset is equal to the _____.

- A) fair market value minus the accounting value
- B) original purchase price plus annual depreciation expense
- C) original purchase price minus accumulated depreciation
- D) depreciated value plus recaptured depreciation

Answer: <https://biology-forums.com/index.php?topic=576855>

Question 2583

Unlike convertible securities, warrants cannot be called, but their limited life stimulates holders to exercise them when the exercise price is below the market price of the firm's stock.

Answer: <https://biology-forums.com/index.php?topic=577888>

Question 2584

Relevant cash flows for a project are best described as _____.

- A) incidental cash flows
- B) incremental cash flows
- C) sunk cash flows
- D) contingent cash flows

Answer: <https://biology-forums.com/index.php?topic=576816>

Question 2585

The _____ is the taxation technique that increases the U.S. income of an MNC by the amount of foreign income (before foreign taxes). The U.S. tax calculation is then based on that higher level.

- A) unitary tax law
- B) grossing up procedure
- C) GmbH
- D) nationalization procedure

Answer: <https://biology-forums.com/index.php?topic=578164>

Question 2586

If a firm's credit period is increased, the sales volume can be expected to _____, the investment in accounts receivable can be expected to _____, and the bad debt expenses can be expected to _____.

- A) increase; decrease; decrease
- B) increase; increase; decrease
- C) increase; increase; increase
- D) decrease; decrease; decrease

Answer: <https://biology-forums.com/index.php?topic=577509>

Question 2587

Net operating profit after taxes (NOPAT) represents a firm's earnings after deducting both interest and taxes.

Answer: <https://biology-forums.com/index.php?topic=575659>

Question 2588

Preferred stockholders are often referred to as residual claimants.

Answer: <https://biology-forums.com/index.php?topic=576202>

Question 2589

Bamboo manufacturing sells its finished product for an average of \$35 per unit with a variable cost per unit of \$21. The company has fixed operating costs of \$1,050,000.

- (a) Calculate the firm's operating breakeven point in units.
- (b) Calculate the firm's operating breakeven point in dollars.
- (c) Using 100,000 units as a base, what is the firm's degree of operating leverage?

Answer: <https://biology-forums.com/index.php?topic=577059>

Question 2590

An aging schedule breaks down accounts receivable into groups on the basis of the first letter of the name of the company that owes on the account.

Answer: <https://biology-forums.com/index.php?topic=577495>

Question 2591

The portion of an asset's sale price that is below its book value and below its initial purchase price is called _____.

- A) a capital gain
- B) recaptured depreciation
- C) a capital loss
- D) book value

Answer: <https://biology-forums.com/index.php?topic=576860>

Question 2592

The payment of cash dividends to corporate stockholders is decided by the _____.

- A) creditors
- B) stockholders
- C) SEC
- D) board of directors

Answer: <https://biology-forums.com/index.php?topic=577188>

Question 2593

The Mercosur is a major European trading bloc that includes former Soviet bloc countries in Eastern Europe.

Answer: <https://biology-forums.com/index.php?topic=578158>

Question 2594

When computing an interest or growth rate, the rate will decrease with an increase in future value, holding present value and the number of periods constant.

Answer: <https://biology-forums.com/index.php?topic=575874>

Question 2595

The accountant of a firm evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks.

Answer: <https://biology-forums.com/index.php?topic=575288>

Question 2596

Which of the following activities of a finance manager determines how the firm raises money to pay for the assets in which it invests?

- A) financial analysis and planning
- B) investment decisions
- C) financing decisions
- D) analyzing and planning cash flows

Answer: <https://biology-forums.com/index.php?topic=575319>

Question 2597

In theory, a firm should maintain financial leverage consistent with a capital structure that _____.

- A) meets the industry standards
- B) meets the investor expectations
- C) maximizes the owner's wealth
- D) maximizes dividends

Answer: <https://biology-forums.com/index.php?topic=577045>

Question 2598

Finance is _____.

- A) the system of verifying, analyzing, and recording business transactions
- B) the science of the production, distribution, and consumption of goods and services
- C) the art and science of managing money
- D) the art of merchandising products and services

Answer: <https://biology-forums.com/index.php?topic=575223>

Question 2599

Optimal capital structure is the capital structure at which the weighted average cost of capital is minimized, thereby maximizing a firm's value.

Answer: <https://biology-forums.com/index.php?topic=577126>

Question 2600

Which of the following is true of an aggressive funding strategy of a firm?

- A) Under an aggressive funding strategy, a firm funds its seasonal requirements with bonds and long-term loans.
- B) Under an aggressive funding strategy, a firm funds its seasonal requirements with short-term debt.
- C) Under an aggressive funding strategy, a firm funds both its seasonal and its permanent requirements with long-term debt.
- D) Under an aggressive funding strategy, a firm funds its permanent requirements with commercial paper and notes payable.

Answer: <https://biology-forums.com/index.php?topic=577373>

Question 2601

The reduction of risk resulting from combining firms with differing seasonal or cyclical patterns of sales or earnings is a key benefit of _____.

- A) congeneric merger
- B) conglomerate merger
- C) horizontal merger
- D) vertical merger

Answer: <https://biology-forums.com/index.php?topic=578014>

Question 2602

A market risk-return function is a graphical presentation of the discount rates associated with each level of project risk.

Answer: <https://biology-forums.com/index.php?topic=576916>

Question 2603

In the EOQ model, _____ costs are the variable costs per unit of holding an item of inventory for a specified time period.

- A) marginal
- B) order
- C) carrying

D) processing

Answer: <https://biology-forums.com/index.php?topic=577429>

Question 2604

Pecking order is a hierarchy of financing beginning with retained earnings, followed by debt financing, and finally external equity financing.

Answer: <https://biology-forums.com/index.php?topic=577082>

Question 2605

The CAPM can be divided into _____.

- A) risk-free rate and risk premium
- B) risk premium and inflation rate
- C) inflation rate and market rate
- D) market rate and inflation premium

Answer: <https://biology-forums.com/index.php?topic=576527>

Question 2606

A firm has common stock with a market price of \$55 per share and an expected dividend of \$2.81 per share at the end of the coming year. The dividends paid on the outstanding stock over the past five years are as follows:

The cost of the firm's common stock equity is _____.

- A) 4.1 percent
- B) 5.1 percent
- C) 12.1 percent
- D) 15.4 percent

Answer: <https://biology-forums.com/index.php?topic=576626>

Question 2607

The New York Soccer Association would like to accumulate \$10,000 by the end of 4 years from now to finance a big soccer weekend for its members. The Association currently has \$2,500 and wishes to raise the balance by arranging annual fund-raising events. How much money should they raise at each annual fund-raising event assuming 8 percent rate of interest?

Answer: <https://biology-forums.com/index.php?topic=575923>

Question 2608

A firm has an average age of inventory of 60 days, an average collection period of 45 days, and an average payment period of 30 days. The firm's operating cycle is _____ days.

- A) 75
- B) 105
- C) 90
- D) 135

Answer: <https://biology-forums.com/index.php?topic=577365>

Question 2609

Diluted earnings per share (EPS) are found by adjusting basic EPS for the impact of converting all convertibles and exercising all warrants and options that would have diluting effects on a firm's earnings.

Answer: <https://biology-forums.com/index.php?topic=577816>

Question 2610

A project's net present value profile is a graph that plots a project's IRR for various discount rates.

Answer: <https://biology-forums.com/index.php?topic=576774>

Question 2611

Calculate the present value of \$89,000 to be received in 15 years, assuming an opportunity cost of 14 percent.

Answer: <https://biology-forums.com/index.php?topic=575789>

Question 2612

Calculate the future value of \$4,600 received today if it is deposited at 9 percent for three years.

Answer: <https://biology-forums.com/index.php?topic=575788>

Question 2613

The overriding goal for merging is the maximization of the owners' wealth as reflected in the acquirer's share price.

Answer: <https://biology-forums.com/index.php?topic=577964>

Question 2614

A firm has determined its cost of each source of capital and optimal capital structure, which is composed of the following sources and target market value proportions:

The weighted average cost of capital is _____.

- A) 6 percent
- B) 10.7 percent
- C) 11 percent
- D) 15 percent

Answer: <https://biology-forums.com/index.php?topic=576651>

Question 2615

In applying risk-adjusted discount rates to project selection, projects falling above the SML would have a positive NPV and those falling below the SML would have a negative NPV.

Answer: <https://biology-forums.com/index.php?topic=576923>

Question 2616

One strength of payback period is that it fully accounts for the time value of money.

Answer: <https://biology-forums.com/index.php?topic=576717>

Question 2617

Which of the following statements is true of payback period?

- A) If the payback period is less than the maximum acceptable payback period, management should be indifferent.
- B) If the payback period is greater than the maximum acceptable payback period, accept the project.
- C) If the payback period is less than the maximum acceptable payback period, accept the project.
- D) If the payback period is greater than the maximum acceptable payback period, management should be indifferent.

Answer: <https://biology-forums.com/index.php?topic=576727>

Question 2618

Maintenance clauses are provisions normally included in an operating lease that require the lessor to maintain the assets and to make insurance and tax payments.

Answer: <https://biology-forums.com/index.php?topic=577776>

Question 2619

In capital budgeting, one of the most common scenario approaches is to estimate the NPVs associated with pessimistic (worst), most likely (expected), and optimistic (best) estimates of cash inflow.

Answer: <https://biology-forums.com/index.php?topic=576888>

Question 2620

Cash acquisitions of going concerns are best analyzed using _____.

- A) an investment opportunity schedule
- B) ratio analysis
- C) capital budgeting techniques
- D) the weighted marginal cost of capital theory

Answer: <https://biology-forums.com/index.php?topic=578061>

Question 2621

An efficient market is one where _____.

- A) prices of stocks move up and down widely without apparent reason
- B) prices of stocks remain low for long periods of time
- C) prices of stocks are unaffected by market news
- D) the price of a security is an unbiased estimate of its true value

Answer: <https://biology-forums.com/index.php?topic=575395>

Question 2622

Which of the following is an important type of risk in an international capital budgeting context?

- A) business cycle risk

- B) political risk
- C) appropriation risk
- D) default risk

Answer: <https://biology-forums.com/index.php?topic=576913>

Question 2623

A financial manager is interested in the cash inflows and outflows of a firm, rather than the accounting data, in order to _____.

- A) ensure profitability
- B) maintain healthy public relations
- C) ensure timely payment of taxes
- D) maintain an optimum solvency level

Answer: <https://biology-forums.com/index.php?topic=575299>

Question 2624

In the month of August, a firm had total cash receipts of \$10,000, total cash disbursements of \$8,000, depreciation expense of \$1,000, a minimum cash balance of \$3,000, and a beginning cash balance of \$500. At the end of August, the firm _____.

- A) required total financing of \$500
- B) had an excess cash balance of \$5,500
- C) had an excess cash balance of \$500
- D) required total financing of \$2,500

Answer: <https://biology-forums.com/index.php?topic=575744>

Question 2625

A derivative security is neither debt nor equity but instead derives its value from an underlying asset.

Answer: <https://biology-forums.com/index.php?topic=577761>

Question 2626

The _____ feature permits the issuer to repurchase bonds at a stated price prior to maturity.

- A) call
- B) conversion
- C) put
- D) swap

Answer: <https://biology-forums.com/index.php?topic=576062>

Question 2627

Which of the following is a marketable security?

- A) mutual funds
- B) Treasury bill
- C) provident fund
- D) forward contracts

Answer: <https://biology-forums.com/index.php?topic=576246>

Question 2628

A decrease in the current asset to total asset ratio will result in _____.

- A) an increase in risk
- B) a decrease in risk
- C) an increase in profit
- D) a decrease in profit

Answer: <https://biology-forums.com/index.php?topic=577375>

Question 2629

A major disadvantage of holding companies is the increased risk resulting from the leverage effect.

Answer: <https://biology-forums.com/index.php?topic=578094>

Question 2630

Alexis owns stock in a company which has consistently paid a growing dividend over the last 10 years. The first year Alexis owned the stock, she received \$4.50 per share and in the 10th year, she received \$4.92 per share. What is the growth rate of the dividends over the last 10 years?

- A) 15 percent
- B) 14.8 percent

C) 12.2 percent

D) 9.3 percent

Answer: <https://biology-forums.com/index.php?topic=575888>

Question 2631

The primary risk of mortgage-backed securities is _____.

A) that the prices of have high volatility

B) that the prices of housing will increase

C) that the government will not be able to meet the guarantees on the cash flows

D) that homeowners may not be able to, or choose not to, repay their loans

Answer: <https://biology-forums.com/index.php?topic=575405>

Question 2632

Gross profit is _____.

A) operating profits minus depreciation

B) operating profits minus cost of goods sold

C) sales revenue minus operating expenses

D) sales revenue minus cost of goods sold

Answer: <https://biology-forums.com/index.php?topic=575475>

Question 2633

A(n) _____ in the beta coefficient normally causes _____ in the required return and therefore _____ in the price of the stock, everything else remaining the same.

A) increase; an increase; an increase

B) increase; a decrease; an increase

C) increase; an increase; a decrease

D) decrease; a decrease; a decrease

Answer: <https://biology-forums.com/index.php?topic=576500>

Question 2634

Stock purchase warrants are instruments that give their holder the right to purchase a certain number of shares of the firm's common stock at the market price over a certain period of time.

Answer: <https://biology-forums.com/index.php?topic=576033>

Question 2635

The cost of equity increases with increasing financial leverage in order to compensate the stockholders for the higher degree of financial risk.

Answer: <https://biology-forums.com/index.php?topic=577129>

Question 2636

A _____ is an option included as part of a bond or preferred stock that permits the holder to convert the security into a specified number of shares of common stock.

A) put option

B) call option

C) conversion feature

D) repurchase agreement

Answer: <https://biology-forums.com/index.php?topic=577837>

Question 2637

The value of a bond is the present value of the _____.

A) dividends and maturity value

B) interest and dividend payments

C) maturity value

D) interest payments and maturity value

Answer: <https://biology-forums.com/index.php?topic=576125>

Question 2638

One function of breakeven analysis is to _____.

A) determine the profit attributable to each stockholder

B) evaluate the effect of leverage on a firm's risks and returns

- C) evaluate the profitability of various sales levels
- D) determine the amount of financing needed by the firm

Answer: <https://biology-forums.com/index.php?topic=577007>

Question 2639

The ordinary income of a corporation is income earned through the sale of goods or services and is currently taxed subject to the individual income tax rates.

Answer: <https://biology-forums.com/index.php?topic=575416>

Question 2640

Suzy wants to buy a house but does not want to get a loan. The average price of her dream house is \$500,000 and its price is growing at 5 percent per year. How much should Suzy invest in a project at the end of each year for the next 5 years in order to accumulate enough money to buy her dream house with cash at the end of the fifth year? Assume the project pays 12 percent rate of return.

Answer: <https://biology-forums.com/index.php?topic=575936>

Question 2641

Incentive plans usually tie management compensation to _____.

- A) share price
- B) dividends
- C) coupon payments
- D) inventory turnover

Answer: <https://biology-forums.com/index.php?topic=575341>

Question 2642

Payment of interest required only when earnings are made available from which to make a payment is characteristic of a(n) _____.

- A) floating rate bond
- B) income bond
- C) mortgage bond
- D) equipment trust certificate

Answer: <https://biology-forums.com/index.php?topic=576086>

Question 2643

In preparing a cash budget, the _____ seasonal and uncertain a firm's cash flows, the _____ the number of budgeting intervals it should use.

- A) more; greater
- B) more; fewer
- C) less; greater
- D) less; fewer

Answer: <https://biology-forums.com/index.php?topic=575733>

Question 2644

The _____ is utilized to value preferred stock.

- A) capital asset pricing model
- B) arbitrage pricing model
- C) zero-growth model
- D) Black-Scholes model

Answer: <https://biology-forums.com/index.php?topic=576296>

Question 2645

Smith has current assets of \$800,000, which can be liquidated at 90 percent of book value. Total liabilities, including preferred stock, equal \$270,000. The firm has 15,000 shares of common stock outstanding. What is the liquidation value per share of common stock?

Answer: <https://biology-forums.com/index.php?topic=576342>

Question 2646

A corporation has \$5,000,000 of 10 percent bonds and \$3,000,000 of 12 percent preferred stock outstanding. The firm's financial breakeven (assuming a 40 percent tax rate) is _____.

- A) \$860,000
- B) \$716,000
- C) \$1,100,000
- D) \$1,400,000

Answer: <https://biology-forums.com/index.php?topic=577120>

Question 2647

The clientele effect refers to _____.

- A) the relevance of dividend policy on a firm's share value
- B) a firm's ability to attract stockholders whose dividend preferences are similar to the firm's dividend policy
- C) the informational content of dividends that helps in predicting the future earnings and growth of a firm
- D) the "bird-in-the-hand" argument

Answer: <https://biology-forums.com/index.php?topic=577216>

Question 2648

The market value of a convertible security is likely to be less than its straight value or conversion value.

Answer: <https://biology-forums.com/index.php?topic=577863>

Question 2649

Mr. & Mrs. Pribel wish to purchase a boat in 8 years when they retire. They are planning to purchase the boat using proceeds from the sale of their property which is currently worth \$90,000 and its value is growing at 7 percent a year. The boat is currently worth \$200,000 increasing at 5 percent per year. In addition to the value of their property, how much additional money should they deposit at the end of each year in an account paying 9 percent annual interest in order to be able to buy the boat upon retirement?

Answer: <https://biology-forums.com/index.php?topic=575930>

Question 2650

The total payments of _____ lease over the lease period are greater than the initial cost of the leased asset to the lessor.

- A) a financial
- B) an operating
- C) a leveraged
- D) a direct

Answer: <https://biology-forums.com/index.php?topic=577795>

Question 2651

A firm has a cash conversion cycle of 120 days, an average collection period of 25 days, and an average payment period of 50 days. The firm's average age of inventory is _____ days.

- A) 45
- B) 95
- C) 125
- D) 145

Answer: <https://biology-forums.com/index.php?topic=577353>

Question 2652

Using simulations, a firm can determine the amount of financing needed to protect it adequately against a cash shortage.

Answer: <https://biology-forums.com/index.php?topic=575725>

Question 2653

To assess whether any developments have occurred that are contrary to a company's financial policies, the financial manager should pay special attention to both the major categories of cash flow and the individual items of cash inflow and outflow.

Answer: <https://biology-forums.com/index.php?topic=575655>

Question 2654

Both operating and financial leverage result in the magnification of return as well as risk.

Answer: <https://biology-forums.com/index.php?topic=576963>

Question 2655

The payback period of a project that costs \$1,000 initially and promises after-tax cash inflows of \$3,000 each year for the next three years is 0.333 years.

Answer: <https://biology-forums.com/index.php?topic=576712>

Question 2656

Lower the coefficient of variation, the greater the risk and therefore the higher the expected return.

Answer: <https://biology-forums.com/index.php?topic=576394>

Question 2657

Profit maximization as a goal is ideal because it directly considers _____.

- A) risk and book value of assets
- B) timing and cash flow
- C) timing and risk
- D) EPS and stock price.

Answer: <https://biology-forums.com/index.php?topic=575261>

Question 2658

Which of the following is true of a stock right and a warrant?

- A) They are similar to a put option.
- B) They both result in new equity capital for a firm.
- C) They are both issued with exercise or subscription prices below the prevailing market price of stock.
- D) They both may be traded independently from the security to which they were attached.

Answer: <https://biology-forums.com/index.php?topic=577904>

Question 2659

An overhanging issue is a convertible security that cannot be forced into conversion by using the call feature.

Answer: <https://biology-forums.com/index.php?topic=577832>

Question 2660

A firm's operating cash flow (OCF) is the cash flow it generates from its normal operations: producing and selling its output of goods or services.

Answer: <https://biology-forums.com/index.php?topic=575646>

Question 2661

The information content of dividends refers to _____.

- A) the nonpayment of dividends by corporations
- B) dividend changes as indicators of a firm's future
- C) a stable and continuous dividend
- D) a study of firm's history of dividend payments

Answer: <https://biology-forums.com/index.php?topic=577221>

Question 2662

Common stock can be either privately owned by private investors or publicly owned by public investors.

Answer: <https://biology-forums.com/index.php?topic=576174>

Question 2663

China Manufacturing Agents, Inc. is preparing a five-year plan. Today, sales are \$1,000,000. If the growth rate in sales is projected to be 10 percent over the next five years, what will the dollar amount of sales be in year five?

Answer: <https://biology-forums.com/index.php?topic=575791>

Question 2664

Under MACRS, an asset which originally cost \$100,000 is being depreciated using a 10-year normal recovery period. The depreciation expense in year 5 is _____.

- A) \$10,000
- B) \$12,000
- C) \$21,000
- D) \$ 9,000

Answer: <https://biology-forums.com/index.php?topic=575637>

Question 2665

In an efficient market, the expected return and the required return are equal.

Answer: <https://biology-forums.com/index.php?topic=576274>

Question 2666

Learning Obj.: LG 6

Learning Outcome: F-27

Question Status: Previous Edition

AACSB Tag: Analytic Skills

Principles of Managerial Finance, 14e (Gitman/Zutter)

Chapter 19 International Managerial Finance

19.1 Understand the major factors that influence the financial operations of multinational companies (MNCs).

1) NAFTA is a treaty establishing free trade and open markets among Europe and the United States.

Answer: <https://biology-forums.com/index.php?topic=578147>

Question 2667

Generally the least expensive source of long-term capital is _____.

- A) retained earnings
- B) preferred stock
- C) long-term debt
- D) common stock

Answer: <https://biology-forums.com/index.php?topic=576560>

Question 2668

Exchange rate risk is the risk that an unexpected change in exchange rates will reduce the market value of a project's cash flows.

Answer: <https://biology-forums.com/index.php?topic=576909>

Question 2669

_____ is one of the solution to the agency problem in publicly-held corporations.

- A) Stock options
- B) Stock split
- C) Demotion of employee designation
- D) Distribution of dividends

Answer: <https://biology-forums.com/index.php?topic=575340>

Question 2670

An increase in a firm's risk will always result in a higher share price since the stockholder must be compensated for the greater risk.

Answer: <https://biology-forums.com/index.php?topic=575252>

Question 2671

A financial lease is a cancelable contractual arrangement whereby the lessee agrees to make periodic payments to the lessor, often for five or fewer years, for an asset's services.

Answer: <https://biology-forums.com/index.php?topic=577773>

Question 2672

Economic value added is the difference between an investment's net operating profit after taxes and the accounting profit.

Answer: <https://biology-forums.com/index.php?topic=576748>

Question 2673

An accountant's primary function is _____.

- A) the evaluation of the financial statements
- B) making decisions based on financial data
- C) the collection and presentation of financial data
- D) the planning of cash flows

Answer: <https://biology-forums.com/index.php?topic=575292>

Question 2674

Paid-in capital in excess of par represents a firm's book value received from the original sale of common stock.

Answer: <https://biology-forums.com/index.php?topic=575451>

Question 2675

Which of the following is an advantage of NPV?

- A) It measures the risk exposure.
- B) It takes into account the time value of investors' money.
- C) It is highly sensitive to the discount rates.

D) It measures how quickly a firm can breakeven.

Answer: <https://biology-forums.com/index.php?topic=576750>

Question 2676

A machine was purchased two years ago for \$120,000 and can be sold for \$50,000 today. The machine has been depreciated using the MACRS 5-year recovery period and the firm pays 40 percent taxes on both ordinary income and capital gains.

- (a) Compute recaptured depreciation and capital gain (loss), if any.
- (b) Find the firm's tax liability.

Answer: <https://biology-forums.com/index.php?topic=576872>

Question 2677

Preferred stockholders must receive their stated dividends prior to the distribution of any earnings to common stockholders and bondholders.

Answer: <https://biology-forums.com/index.php?topic=576583>

Question 2678

_____ are funds denominated in U.S. dollars and deposited in banks located outside the United States.

- A) Negotiable certificates of deposit
- B) Eurodollar deposits
- C) Banker's acceptances
- D) Money market mutual funds

Answer: <https://biology-forums.com/index.php?topic=577564>

Question 2679

Playing the float involves the strategic use of mailing points and bank accounts to lengthen mail float and clearing float, respectively.

Answer: <https://biology-forums.com/index.php?topic=577521>

Question 2680

Financial managers perform different tasks developing a financial plan or budget, extending credit to customers, evaluating proposed large expenditures, and raising money to fund a firm's operations.

Answer: <https://biology-forums.com/index.php?topic=575215>

Question 2681

Controlled disbursing is a method of consciously anticipating the mail, processing, and clearing time involved with the payment process.

Answer: <https://biology-forums.com/index.php?topic=577520>

Question 2682

A firm has a line of credit and borrows \$25,000 at 9 percent interest for 180 days or half a year. What is the effective rate of interest on this loan if the interest is paid in advance?

- A) 4.7 percent
- B) 9.4 percent
- C) 9.9 percent
- D) 10.3 percent

Answer: <https://biology-forums.com/index.php?topic=577682>

Question 2683

A Eurobond is a bond issued by an international borrower and sold to investors in countries with currencies other than the country in which the bond is denominated.

Answer: <https://biology-forums.com/index.php?topic=576060>

Question 2684

Due to its secondary position relative to equity, suppliers of debt capital face greater risk and therefore must be compensated with higher expected returns than suppliers of equity capital.

Answer: <https://biology-forums.com/index.php?topic=577067>

Question 2685

Standard deviation is a measure of relative dispersion that is useful in comparing the risks of assets with different expected returns.

Answer: <https://biology-forums.com/index.php?topic=576391>

Question 2686

The _____ of a business firm is measured by its ability to satisfy its short-term obligations as they come due.

- A) activity
- B) liquidity
- C) debt
- D) profitability

Answer: <https://biology-forums.com/index.php?topic=575556>

Question 2687

Which of the following affects business risk?

- A) operating leverage
- B) interest rate stability
- C) preferred stock
- D) financial lease

Answer: <https://biology-forums.com/index.php?topic=577111>

Question 2688

Janice would like to send her parents on a cruise for their 25th wedding anniversary. She has priced the cruise at \$15,000, and she has 5 years to accumulate this money. How much must Janice deposit annually in an account paying 10 percent interest in order to have enough money to send her parents on the cruise?

- A) \$1,862
- B) \$2,457
- C) \$3,000
- D) \$2,234

Answer: <https://biology-forums.com/index.php?topic=575881>

Question 2689

Which of the following is a cash inflow?

- A) a decrease in accounts payable
- B) a decrease in accounts receivable
- C) an increase in dividend payment
- D) a decrease in accrued liabilities

Answer: <https://biology-forums.com/index.php?topic=575669>

Question 2690

Dwyer Corporation is determining whether to lease or purchase new equipment. The firm is in the 38% tax bracket, and its after-tax cost of debt is currently 7%. The terms of the lease and the purchase are:

Lease: Annual end-of-year lease payments of \$31,500 are required over the 3-year life of the lease. All maintenance costs will be paid by the lessor; insurance and other costs will be borne by the lessee. The lessee will exercise its option to purchase the equipment for \$6,000 at the termination of the lease.

Purchase: The equipment, costing \$77,000, can be financed entirely with a 12% loan requiring annual end-of-year payments of \$32,059 for 3 years. The firm will depreciate the equipment under MACRS using a 3-year recovery period (33% in year 1, 45% in year 2, 15% in year 3 and 7% in year 4). The firm will pay \$2,000 per year for a service contract that covers maintenance costs; insurance and other costs will be borne by the firm. The firm plans to keep the equipment and use it beyond its 3-year recovery period.

Calculate the present value of the cash outflow for both the lease and purchasing and recommend one alternative.

- A) The present value of the cash outflow for the lease is \$56,151 and for purchasing is \$56,775, therefore Dwyer should choose the lease.
- B) The present value of the cash outflow for the lease is \$56,151 and for purchasing is \$56,775, therefore Dwyer should choose purchase.
- C) The present value of the cash outflow for the lease is \$64,590 and for purchasing is \$65,398, therefore Dwyer should choose the lease.
- D) The present value of the cash outflow for the lease is \$51,178 and for purchasing is \$51,703, therefore Dwyer should choose the lease.

Answer: <https://biology-forums.com/index.php?topic=577812>

Question 2691

The responsibility for managing day-to-day operations and carrying out corporate policies belongs to the _____.

- A) board of directors
- B) chief executive officer
- C) stockholders
- D) creditors

Answer: <https://biology-forums.com/index.php?topic=575336>

Question 2692

The conversion feature of a bond is a feature that is included in all corporate bond issues that gives the issuer the opportunity to repurchase bonds at a stated price prior to maturity.

Answer: <https://biology-forums.com/index.php?topic=576037>

Question 2693

An increase in fixed operating and financial cost results in an increase in risk, since the firm will have to achieve a higher level of sales just to break even.

Answer: <https://biology-forums.com/index.php?topic=577127>

Question 2694

Regular dividend policy is a dividend policy based on the payment of a certain fixed percentage of earnings to owners in each dividend period.

Answer: <https://biology-forums.com/index.php?topic=577249>

Question 2695

The Gramm-Leach-Bliley Act _____.

- A) is created to monitor banks on a regular basis to ensure that they were safe and sound
- B) allows business combinations between commercial banks and investment banks, but not insurance companies
- C) allows business combinations between commercial banks, investment banks, and insurance companies
- D) was signed during the Great Depression because of the financial crisis

Answer: <https://biology-forums.com/index.php?topic=575413>

Question 2696

The total cost of a firm's inventory is found by summing the _____.

- A) order cost and the marginal cost of a firm's inventory
- B) order cost and the carrying cost of a firm's inventory
- C) order cost and the actual cost of a firm's inventory
- D) carrying cost and the marginal cost of a firm's inventory

Answer: <https://biology-forums.com/index.php?topic=577426>

Question 2697

Nico Corporation has annual purchases of \$300,000 and accounts payable of \$30,000, then average purchases per day are _____ and the average payment period is _____.

- A) 36.5; 821.9
- B) 36.0; 833.3
- C) 821.9; 36.5
- D) 833.3; 36.0

Answer: <https://biology-forums.com/index.php?topic=575573>

Question 2698

Improvements to cash management include _____.

- A) a reduction in the cash turnover
- B) a reduction in the cash conversion cycle
- C) an increase in the average age of inventory
- D) an increase in the credit period allowed to customers

Answer: <https://biology-forums.com/index.php?topic=577384>

Question 2699

All projects should always use the WACC as the required return for capital budgeting purposes.

Answer: <https://biology-forums.com/index.php?topic=576879>

Question 2700

A firm should take the cash discount if the firm's cost of borrowing from the bank is greater than the cost of giving up a cash discount.

Answer: <https://biology-forums.com/index.php?topic=577591>

Question 2701

Operating profit is known as _____.

- A) earnings after interest and taxes
- B) earnings before interest and taxes
- C) earnings before depreciation and taxes
- D) earnings after tax

Answer: <https://biology-forums.com/index.php?topic=575479>

Question 2702

A formal proposal to purchase a given number of shares of a firm's stock at a specified price is a _____.

- A) golden parachute
- B) call option
- C) put option
- D) tender offer

Answer: <https://biology-forums.com/index.php?topic=578099>

Question 2703

For minimizing the cash conversion cycle, a firm should _____.

- A) grant longer credit terms to customers to maintain healthy business relations
- B) pay off accounts payables as fast as possible to gain credibility
- C) turn over inventory as quickly as possible without stockouts
- D) increase mail managing, processing, and clearing time when collecting from customers

Answer: <https://biology-forums.com/index.php?topic=577405>

Question 2704

A _____ permits a firm's capital structure to be changed without increasing the total financing.

- A) put option
- B) call option
- C) conversion feature
- D) repurchase agreement

Answer: <https://biology-forums.com/index.php?topic=577842>

Question 2705

Although more expensive than a line of credit, a revolving credit agreement can be less risky from the borrower's viewpoint.

Answer: <https://biology-forums.com/index.php?topic=577641>

Question 2706

The market value of a warrant is _____ the theoretical value of the warrant.

- A) below
- B) equal to
- C) above
- D) less than or equal to

Answer: <https://biology-forums.com/index.php?topic=577910>

Question 2707

Commitment fee is the fee that is normally charged on a revolving credit agreement.

Answer: <https://biology-forums.com/index.php?topic=577655>

Question 2708

Stock purchase warrants are instruments that give their holders _____.

- A) the obligation to purchase a certain number of shares of the issuer's common stock at a specified price over a certain period of time
- B) the right to purchase a certain number of shares of the issuer's common stock at a specified price over a certain period of time
- C) the obligation to sell a certain number of shares of the issuer's preferred stock at a specified price over a certain period of time
- D) the right to sell a certain number of shares of the issuer's preferred stock at a specified price over a certain period of time

Answer: <https://biology-forums.com/index.php?topic=576066>

Question 2709

The conservative financing strategy results in financing all projected funds requirements with _____ funds and use of _____ funds in the event of an unexpected cash outflow.

- A) long-term; short-term
- B) short-term; long-term

- C) permanent; seasonal
- D) seasonal; permanent

Answer: <https://biology-forums.com/index.php?topic=577388>

Question 2710

The Federal Deposit Insurance Corporation (FDIC) _____.

- A) is an agency, created by the Glass-Steagall Act, that monitors banks on a regular basis to ensure that they were safe and sound
- B) is an agency that monitors business combinations between commercial banks, investment banks, and insurance companies
- C) guarantees individuals will not lose any money held at any type of financial institution that fails
- D) guarantees individuals will not lose any money, up to a specified amount, held at any type of financial institution that fails

Answer: <https://biology-forums.com/index.php?topic=575411>

Question 2711

A company's bonds will experience more trading activity (in terms of the number of bonds traded on a given day) compared to its stock.

Answer: <https://biology-forums.com/index.php?topic=576044>

Question 2712

A yield curve that reflects relatively similar borrowing costs for both short- and long-term loans is called a normal yield curve.

Answer: <https://biology-forums.com/index.php?topic=575948>

Question 2713

A firm is evaluating an investment proposal which has an initial investment of \$5,000 and cash flows presently valued at \$4,000. The net present value of the investment is _____.

- A) -\$1,000
- B) \$9,000
- C) \$4,000
- D) -\$4,000

Answer: <https://biology-forums.com/index.php?topic=576753>

Question 2714

Funds on deposit at commercial banks having variable maturities and yields based on size, maturity, and prevailing money market conditions are _____.

- A) negotiable certificates of deposit
- B) commercial paper
- C) savings accounts
- D) money market mutual funds

Answer: <https://biology-forums.com/index.php?topic=577568>

Question 2715

If a firm has unlimited funds, it is able to accept all independent projects that provide an acceptable return.

Answer: <https://biology-forums.com/index.php?topic=576679>

Question 2716

Which of the following is true of preferred stock?

- A) It has features of bonds and a common stock.
- B) It has a claim on assets prior to creditors in the event of liquidation.
- C) Its dividends can be paid only after paying dividends to the common stockholders.
- D) It usually has a maturity of thirty years.

Answer: <https://biology-forums.com/index.php?topic=575381>

Question 2717

The net effect of changes in a cash discount period is quite difficult to analyze because they are directly attributable to the three forces affecting a firm's investment in accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=577491>

Question 2718

_____ are obligations of the U.S. Treasury with common maturities of one to seven years.

- A) Treasury notes

- B) Treasury bills
- C) Federal agency issues
- D) Banker's acceptances

Answer: <https://biology-forums.com/index.php?topic=577559>

Question 2719

Which of the following line items in a balance sheet is considered the most for making a financing decision?

- A) current assets
- B) long-term liabilities
- C) revenue
- D) cost of goods sold

Answer: <https://biology-forums.com/index.php?topic=575311>

Question 2720

The book value per share of common stock is the amount per share of common stock that would be received if all of a firm's assets were sold for their accounting value and the proceeds remaining were divided among common stockholders.

Answer: <https://biology-forums.com/index.php?topic=576323>

Question 2721

The capital asset pricing model is used to calculate the effect of increase in prices of capital assets due to inflation.

Answer: <https://biology-forums.com/index.php?topic=576610>

Question 2722

A bank lends a firm \$500,000 for one year at 8 percent and requires compensating balances of 10 percent of the face value of the loan. The effective annual interest rate associated with this loan is _____.

- A) 8.9 percent
- B) 8 percent
- C) 7.2 percent
- D) 7.0 percent

Answer: <https://biology-forums.com/index.php?topic=577674>

Question 2723

Daniel Custom Cycles' common stock currently pays no dividends. The company plans to begin paying dividends beginning 3 years from today. The first dividend will be \$3.00 and dividends will grow at 5 percent per year thereafter. Given a required return of 15 percent, what would you pay for the stock today?

- A) \$25.33
- B) \$18.73
- C) \$29.86
- D) \$22.68

Answer: <https://biology-forums.com/index.php?topic=576306>

Question 2724

Working capital refers to a firm's long-term capital.

Answer: <https://biology-forums.com/index.php?topic=577295>

Question 2725

Operating leverage is concerned with the relationship between a firm's sales revenue and its financial expenses.

Answer: <https://biology-forums.com/index.php?topic=576957>

Question 2726

In a Dutch auction, _____.

- A) a firm offers to repurchase a fixed number of shares, at a discount
- B) a firm offers to repurchase a fixed number of shares, at a premium
- C) a firm specifies a range of prices at which it is willing to repurchase shares and the quantity of shares that it desires
- D) a firm enables stockholders to use dividends received on the firm's stock to acquire additional shares

Answer: <https://biology-forums.com/index.php?topic=577197>

Question 2727

The major shortcoming of the EBIT-EPS approach to capital structure is that _____.

- A) the technique does not promote the maximization of shareholder wealth
- B) the technique does not consider the cost of capital
- C) the technique only considers leverage-related risk
- D) the technique does not maximize earnings per share

Answer: <https://biology-forums.com/index.php?topic=577158>

Question 2728

When the ratio of exchange in a merger is equal to one and both the acquiring and the target companies have the same premerger earnings per share, the merged firm's earnings per share will initially _____.

- A) decline
- B) remain constant
- C) increase
- D) drop to zero

Answer: <https://biology-forums.com/index.php?topic=578071>

Question 2729

As the price of the underlying stock falls below the exercise price of a warrant, the investor's ability to earn larger potential return diminishes. Therefore, the warrant premium will _____.

- A) increase
- B) decrease
- C) remain unchanged
- D) double

Answer: <https://biology-forums.com/index.php?topic=577912>

Question 2730

Risk that affects all firms is called _____.

- A) maturity risk
- B) unsystematic risk
- C) nondiversifiable risk
- D) reinvestment risk

Answer: <https://biology-forums.com/index.php?topic=576468>

Question 2731

Independent projects are those whose cash flows compete with one another and therefore more than one project needs to be accepted in order to implement the capital budgeting decision.

Answer: <https://biology-forums.com/index.php?topic=576676>

Question 2732

Net operating profit after taxes (NOPAT) represents a firm's earnings before interest and after taxes.

Answer: <https://biology-forums.com/index.php?topic=575658>

Question 2733

Putable bonds give the bondholders an option to sell the bond at a price higher than par value by the amount of one year interest payment when and if the firm takes specified actions such as being acquired, acquiring another company, or issuing a large amount of additional debt.

Answer: <https://biology-forums.com/index.php?topic=576052>

Question 2734

The liquidity of a business firm refers to the solvency of the firm's overall financial position.

Answer: <https://biology-forums.com/index.php?topic=575544>

Question 2735

The income statement is a financial summary of a firm's operating results during a specified period while the balance sheet is a summary statement of a firm's financial position at a given point in time.

Answer: <https://biology-forums.com/index.php?topic=575449>

Question 2736

In general, with an amortized loan, the payment amount remains constant over the life of the loan, the principal portion of each payment grows over the life of the loan, and the interest portion of each payment declines over the life of the loan.

Answer: <https://biology-forums.com/index.php?topic=575869>

Question 2737

Key inputs to short-term financial planning are _____.

- A) cash flow statements and income statement
- B) pro forma financial statements
- C) sales forecasts, and operating and financial data
- D) leverage analysis and pro forma income statement

Answer: <https://biology-forums.com/index.php?topic=575707>

Question 2738

A firm's financing requirements can be separated into _____.

- A) current liabilities and short-term funds
- B) current assets and fixed assets
- C) current liabilities and long-term debt
- D) seasonal and permanent

Answer: <https://biology-forums.com/index.php?topic=577400>

Question 2739

In theory, the rate of return on U.S. Treasury bills should always exceed the rate of inflation as measured by the consumer price index.

Answer: <https://biology-forums.com/index.php?topic=575944>

Question 2740

With the existence of fixed operating costs, a decrease in sales will result in _____ in EBIT.

- A) a proportional increase
- B) an equal increase
- C) a less than proportional decrease
- D) a more than proportional decrease

Answer: <https://biology-forums.com/index.php?topic=577036>

Question 2741

If the NPV is less than the initial investment, a project should be rejected.

Answer: <https://biology-forums.com/index.php?topic=576745>

Question 2742

As debt is substituted for equity in the capital structure and the debt ratio increases, the behavior of the overall cost of capital is partially explained by _____.

- A) the tax-deductibility of interest payments
- B) the increase in the number of common shares outstanding
- C) the reduction in risk as perceived by the common shareholders
- D) the decrease in the cost of equity

Answer: <https://biology-forums.com/index.php?topic=577107>

Question 2743

The interest paid by the issuer of commercial paper is determined by the size of the discount and the length of time to maturity.

Answer: <https://biology-forums.com/index.php?topic=577693>

Question 2744

If a firm's credit period is decreased, the sales volume, the investment in accounts receivable, and the bad debt expenses can be expected to increase.

Answer: <https://biology-forums.com/index.php?topic=577489>

Question 2745

Financial leverage measures the effect of fixed financing costs on the relationship between _____.

- A) sales and EBIT
- B) sales and EPS
- C) EBIT and EPS
- D) net income and sales

Answer: <https://biology-forums.com/index.php?topic=577048>

Question 2746

Perry purchased 100 shares of Ferro, Inc. common stock for \$25 per share one year ago. During the year, Ferro, Inc. paid cash dividends of \$2 per share. The stock is currently selling for \$30 per share. If Perry sells all of his shares of Ferro, Inc. today, what rate of return would he realize?
Answer: <https://biology-forums.com/index.php?topic=576373>

Question 2747

In general, a firm's theoretical optimal capital structure is that which balances the tax benefits of equity financing against the increase probability of bankruptcy that results from its use.
Answer: <https://biology-forums.com/index.php?topic=577088>

Question 2748

Ag Silver Mining, Inc. has \$500,000 of earnings before interest and taxes at the year end. Interest expenses for the year were \$10,000. The firm expects to distribute \$100,000 in dividends. Calculate the earnings after taxes for the firm assuming a 40 percent tax on ordinary income.
Answer: <https://biology-forums.com/index.php?topic=575506>

Question 2749

Paid-in capital in excess of par represents the amount of proceeds _____.
A) in deficit of the par value from the original sale of common stock
B) in excess of the par value from the original sale of common stock
C) in excess of the par value from the current value of common stock
D) in excess of the par value from the intrinsic value of common stock
Answer: <https://biology-forums.com/index.php?topic=575493>

Question 2750

The basic cash flows that must be considered when determining the initial investment associated with a capital expenditure are the installed cost of the new asset, the after-tax proceeds (if any) from the sale of an old asset, and the change (if any) in net working capital.
Answer: <https://biology-forums.com/index.php?topic=576832>

Question 2751

The widely shared expectations of hard times ahead tend to cause investors to become less risk-averse.
Answer: <https://biology-forums.com/index.php?topic=576516>

Question 2752

A corporation is selling an existing asset for \$21,000. The asset, when purchased, cost \$10,000, was being depreciated under MACRS using a five-year recovery period, and has been depreciated for four full years. If the assumed tax rate is 40 percent on ordinary income and capital gains, the tax effect of this transaction is _____.
A) \$0 tax liability
B) \$7,560 tax liability
C) \$4,400 tax liability
D) \$7,720 tax liability
Answer: <https://biology-forums.com/index.php?topic=576862>

Question 2753

A capital or capitalized lease is also known as _____.
A) an operating lease
B) a financial lease
C) a direct lease
D) a leveraged lease
Answer: <https://biology-forums.com/index.php?topic=577800>

Question 2754

An advantage of a convertible security is that it provides deferred common stock financing. The purpose of deferring the sale of common stock is to _____.
A) increase the leverage of the firm
B) dilute the ownership interest
C) minimize dilution in earnings per share
D) time the sale of common stock when the price per share is increasing
Answer: <https://biology-forums.com/index.php?topic=577850>

Question 2755

The cost of debt financing results from _____.

- A) the decreased probability of bankruptcy caused by debt obligations
- B) the risk–return trade-off associated with ownership of a firm
- C) the costs associated with lenders having less information about a firm's prospects than investors and managers
- D) the agency costs of the lenders' monitoring and controlling a firm's actions

Answer: <https://biology-forums.com/index.php?topic=577116>

Question 2756

The capital impairment restrictions are established to _____.

- A) reduce dividends equal to or below the current earnings level
- B) constrain the firm to paying dividends which do not require additional borrowing
- C) provide sufficient safety to equity holders
- D) provide a sufficient equity base to protect creditors' claims

Answer: <https://biology-forums.com/index.php?topic=577242>

Question 2757

_____ is the potential use of fixed costs to magnify the effect of changes in sales on the firm's earnings per share.

- A) Investing leverage
- B) Total leverage
- C) Operating leverage
- D) Financial leverage

Answer: <https://biology-forums.com/index.php?topic=577052>

Question 2758

Given the following probability distribution for assets X and Y, compute the expected rate of return, variance, standard deviation, and coefficient of variation for the two assets. Which asset is a better investment?

Answer: <https://biology-forums.com/index.php?topic=576415>

Question 2759

In general, projects with similar-sized investments and lower cash inflows in the early years tend to be preferred at higher discount rates.

Answer: <https://biology-forums.com/index.php?topic=576786>

Question 2760

Corporate owners receive return _____.

- A) by realizing gains through increases in share price and interest earnings
- B) by realizing gains through increases in share price and cash dividends
- C) through capital appreciation and retained earnings
- D) through interest earnings and earnings per share

Answer: <https://biology-forums.com/index.php?topic=575256>

Question 2761

An interest rate or a required rate of return represents the cost of money.

Answer: <https://biology-forums.com/index.php?topic=575937>

Question 2762

Comparing net present value and internal rate of return _____.

- A) always results in the same ranking of projects
- B) always results in the same accept-reject decision
- C) may give different accept-reject decisions
- D) is only necessary on independent projects

Answer: <https://biology-forums.com/index.php?topic=576804>

Question 2763

Returns from internationally diversified portfolios tend to be superior to those yielded by purely domestic ones.

Answer: <https://biology-forums.com/index.php?topic=576444>

Question 2764

International capital budgeting differs from domestic capital budgeting as cash inflows and outflows occur in a foreign currency and foreign investments potentially face significant political risk.

Answer: <https://biology-forums.com/index.php?topic=576904>

Question 2765

A firm has actual sales in November of \$1,000 and projected sales in December and January of \$3,000 and \$4,000, respectively. The firm makes 10 percent of its sales for cash, collects 40 percent of its sales one month following the sale, and collects the balance two months following the sale. The firm's total cash receipts in November is _____.

- A) \$1,000
- B) \$100
- C) \$700
- D) \$400

Answer: <https://biology-forums.com/index.php?topic=575739>

Question 2766

A capital expenditures analyst/manager is responsible for the evaluation and recommendation of proposed asset investments.

Answer: <https://biology-forums.com/index.php?topic=575216>

Question 2767

The risk of an investment in a Eurodollar deposit is partially due to _____.

- A) the fact that the center of the Eurodollar market is in London
- B) the fact that the majority of these deposits are not in the form of U.S. dollars
- C) the presence of some foreign exchange risk
- D) the fact that these instruments only pay interest at maturity

Answer: <https://biology-forums.com/index.php?topic=577577>

Question 2768

Unlike equityholders, creditors are owners of the firm.

Answer: <https://biology-forums.com/index.php?topic=576162>

Question 2769

Subsidiary companies are corporations having no voting control on holding companies.

Answer: <https://biology-forums.com/index.php?topic=577953>

Question 2770

Convertible preferred stock is converted into _____.

- A) secured bonds
- B) debentures
- C) shares of common stock
- D) warrants

Answer: <https://biology-forums.com/index.php?topic=577836>

Question 2771

Commercial finance companies usually charge a higher interest on secured short-term loans than commercial banks because the finance companies generally ends up with higher-risk borrowers.

Answer: <https://biology-forums.com/index.php?topic=577715>

Question 2772

A leveraged lease is a lease under which the lessee sells an asset for cash to a prospective lessor and then leases back the same asset, making fixed periodic payments for its use.

Answer: <https://biology-forums.com/index.php?topic=577781>

Question 2773

The all-current-rate method is the method by which the functional currency-denominated financial statements of an MNC's subsidiary are translated into the parent company's currency.

Answer: <https://biology-forums.com/index.php?topic=578176>

Question 2774

Which of the following is one of the five C's of credit?

- A) coordination
- B) cost
- C) character
- D) control

Answer: <https://biology-forums.com/index.php?topic=577469>

Question 2775

Benchmarking is a type of time-series analysis in which the firm's ratio values are compared to those of a key competitor or group of competitors, primarily to isolate areas of opportunity for improvement.

Answer: <https://biology-forums.com/index.php?topic=575515>

Question 2776

Which of the following is considered as a violation of business ethics?

- A) earnings management
- B) repurchase of shares
- C) using the call option on a callable bond when the interest rate is low
- D) paying a high amount of dividends every year

Answer: <https://biology-forums.com/index.php?topic=575277>

Question 2777

Valuation is the process that links risk and return to determine the worth of an asset.

Answer: <https://biology-forums.com/index.php?topic=576098>

Question 2778

The cost of retained earnings is always lower than the cost of a new issue of common stock due to the absence of flotation costs when financing projects with retained earnings.

Answer: <https://biology-forums.com/index.php?topic=576596>

Question 2779

The portion of an asset's risk that is attributable to firm-specific, random causes is called _____.

- A) unsystematic risk
- B) nondiversifiable risk
- C) market risk
- D) political risk

Answer: <https://biology-forums.com/index.php?topic=576469>

Question 2780

Given the financial data for New Electronic World, Inc. (NEW), compute the following measures of cash flows for the NEW for the year ended December 31, 2015.

- (a) Operating cash flow
- (b) Free cash flow

For the year ended December 31,

Answer: <https://biology-forums.com/index.php?topic=575688>

Question 2781

A(n) _____ is undertaken with the goal of restructuring the acquired company in order to improve its cash flow and unlock its hidden value.

- A) operating merger
- B) strategic merger
- C) financial merger
- D) hostile takeover

Answer: <https://biology-forums.com/index.php?topic=577994>

Question 2782

The cost to maturity of existing bonds reflects the rate of return required by the market.

Answer: <https://biology-forums.com/index.php?topic=576567>

Question 2783

The number of outstanding shares of common stock is always greater than or equal to the number of authorized shares of common stock.
Answer: <https://biology-forums.com/index.php?topic=576178>

Question 2784

A ski chalet at Peak n' Peak now costs \$250,000. Inflation is expected to cause this price to increase at 5 percent per year over the next 10 years before Chris and Julie retire from successful investment banking careers. How large an equal annual end-of-year deposit must be made into an account paying an annual rate of interest of 13 percent in order to buy the ski chalet upon retirement?
A) \$ 8,333
B) \$13,572
C) \$25,005
D) \$22,109
Answer: <https://biology-forums.com/index.php?topic=575894>

Question 2785

A bond with short maturity has less "interest rate risk" than a bond with long maturity when all other features—coupon interest rate, par value, and interest payment frequency—are the same.
Answer: <https://biology-forums.com/index.php?topic=576116>

Question 2786

The greater the leverage, the smaller the risk involved.
Answer: <https://biology-forums.com/index.php?topic=578096>

Question 2787

The shorter the amount of time until a bond's maturity, the more responsive is its market value to a given change in the required return.
Answer: <https://biology-forums.com/index.php?topic=576118>

Question 2788

The preferred capital structure weights to be used in the weighted average cost of capital are _____.
A) book value weights
B) nominal weights
C) historic weights
D) target weights
Answer: <https://biology-forums.com/index.php?topic=576650>

Question 2789

By calling the additional dividend an extra dividend, a firm avoids setting expectations that the dividend increase will be permanent.
Answer: <https://biology-forums.com/index.php?topic=577251>

Question 2790

Both warrants and rights result in new capital equity. However, warrants are issued at an exercise price below the prevailing market price of the stock, whereas rights are issued at a subscription price above the prevailing market price.
Answer: <https://biology-forums.com/index.php?topic=577890>

Question 2791

An increase in the Treasury Bill rate _____.
A) has no effect on the required rate of return of a common stock
B) increases the required rate of return of a common stock
C) doubles the required rate of return of a common stock
D) increases the beta of a common stock
Answer: <https://biology-forums.com/index.php?topic=576483>

Question 2792

According to Modigliani and Miller, a firm's value is determined solely by the earning power and risk of its assets and that the manner in which it splits its earnings stream between dividends and internally retained funds does not affect this value.
Answer: <https://biology-forums.com/index.php?topic=577206>

Question 2793

Higher the debt ratio, more the financial leverage a firm has and thus, the greater will be its risk and return.

Answer: <https://biology-forums.com/index.php?topic=575583>

Question 2794

The marginal cost of capital is a relevant cost of capital for evaluating a firm's future investment opportunities.

Answer: <https://biology-forums.com/index.php?topic=576558>

Question 2795

The inclusion of assets from countries with business cycles that are not highly correlated with the U.S. business cycle reduces the portfolio's responsiveness to market movements.

Answer: <https://biology-forums.com/index.php?topic=576443>

Question 2796

Debt is generally the least expensive source of capital. This is primarily due to _____.

- A) the fixed interest payments
- B) the priority of claims on assets and earnings in the event of liquidation
- C) the tax deductibility of interest payments
- D) the secured nature of a debt obligation

Answer: <https://biology-forums.com/index.php?topic=576579>

Question 2797

Marketable securities are short-term, interest-earning, money market instruments that can easily be converted into cash.

Answer: <https://biology-forums.com/index.php?topic=577528>

Question 2798

One of the key motives for mergers is _____.

- A) reducing the marginal tax rate
- B) taking advantage of the other firm's tax loss carryforward
- C) to sell the assets of the target company to increase the cash balance
- D) increasing additional recaptured depreciation

Answer: <https://biology-forums.com/index.php?topic=578000>

Question 2799

Which of the following is true of a dividend payout?

- A) When a firm announces that it will increase its dividend, the share price usually decreases on that news.
- B) Dividend payments send a positive signal to investors in the marketplace that management believes that the stock is overvalued.
- C) When a firm pays out dividends the share price will fall.
- D) Dividend payouts have no impact on the share price of a stock in an efficient market.

Answer: <https://biology-forums.com/index.php?topic=577194>

Question 2800

A deep-discount bond can be purchased for \$312 and in 20 years it will be worth \$1,000. What is the rate of interest on the bond?

Answer: <https://biology-forums.com/index.php?topic=575925>

Question 2801

Treasury stocks held within the corporation do not have voting rights but have a claim on assets in liquidation.

Answer: <https://biology-forums.com/index.php?topic=576187>

Question 2802

Future value is the value of a future amount at the present time, found by applying compound interest over a specified period of time.

Answer: <https://biology-forums.com/index.php?topic=575773>

Question 2803

Spontaneous unsecured financing has a specific interest cost associated with it that can be at a fixed or floating rate.

Answer: <https://biology-forums.com/index.php?topic=577583>

Question 2804

Using the Capital Asset Pricing Model (CAPM), the cost of common stock equity is the return required by investors as compensation for a firm's nondiversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=576605>

Question 2805

A bond rated Aaa according to Moody's, is considered _____.

- A) a high grade bond
- B) a prime quality bond
- C) an upper medium grade bond
- D) a medium grade bond

Answer: <https://biology-forums.com/index.php?topic=576069>

Question 2806

Equity capital can be raised through _____.

- A) the money market
- B) the NYSE bond market
- C) the stock market
- D) a private placement with an insurance company

Answer: <https://biology-forums.com/index.php?topic=576206>

Question 2807

Short-term, self-liquidating loans are intended to _____.

- A) provide one-time loan to the borrower who needs funds for a specific purpose
- B) cover seasonal peaks in financing caused by inventory and receivable buildups
- C) provide maximum amount to the firm that it can owe to the bank
- D) recapitalize the firm

Answer: <https://biology-forums.com/index.php?topic=577660>

Question 2808

Commercial banks advise firms on major transactions such as mergers or financial restructurings.

Answer: <https://biology-forums.com/index.php?topic=575347>

Question 2809

A firm's free cash flow (FCF) equals the sum of operating cash flows, financing cash flows, and investing cash flows.

Answer: <https://biology-forums.com/index.php?topic=575650>

Question 2810

Which of the following is an area of career opportunities in managerial finance?

- A) investment
- B) real estate and insurance
- C) capital expenditures management
- D) personal financial planning

Answer: <https://biology-forums.com/index.php?topic=575225>

Question 2811

Time-series analysis is often used to _____.

- A) assess developing trends
- B) correct errors of judgment
- C) evaluate the value of a firm or its assets
- D) standardize results

Answer: <https://biology-forums.com/index.php?topic=575533>

Question 2812

Which of the following statements about put and call options is true?

- A) They are traded only over-the-counter.
- B) They are a form of deferred equity financing by a firm.
- C) They can be used to lock in a gain or prevent a loss on a stock holding.

D) They provide the seller with an opportunity to earn larger returns than simply buying or selling common stock.

Answer: <https://biology-forums.com/index.php?topic=577925>

Question 2813

A firm has determined it can issue preferred stock at \$115 per share par value. The stock will pay a \$12 annual dividend. The cost of issuing and selling the stock is \$3 per share. The cost of the preferred stock is _____.

- A) 6.4 percent.
- B) 10.4 percent.
- C) 10.7 percent.
- D) 12 percent.

Answer: <https://biology-forums.com/index.php?topic=576591>

Question 2814

In exchange for the tailor-made maturity date provided by the repurchase agreement, a bank or security dealer provides a return slightly below than obtainable through outright purchase of similar marketable securities.

Answer: <https://biology-forums.com/index.php?topic=577538>

Question 2815

The operating breakeven point can be found by solving for the sales level that just covers total fixed and variable costs.

Answer: <https://biology-forums.com/index.php?topic=576980>

Question 2816

An option is a security that is neither debt nor equity but derives its value from an underlying asset that is often another security.

Answer: <https://biology-forums.com/index.php?topic=577757>

Question 2817

Stated interest rate under _____ is adjusted periodically within stated limits in response to changes in specified money market or capital market rates.

- A) junk bonds
- B) floating rate bonds
- C) extendible notes
- D) puttable bonds

Answer: <https://biology-forums.com/index.php?topic=576074>

Question 2818

Under MACRS depreciation, the depreciable value of an asset is equal to the asset's purchase price minus any installation costs.

Answer: <https://biology-forums.com/index.php?topic=576833>

Question 2819

In case of stock dividend, the shareholder's proportion of ownership in a firm remains the same, and as long as the firm's earnings remain unchanged, so does his or her share of total earnings.

Answer: <https://biology-forums.com/index.php?topic=577268>

Question 2820

The process that links risk and return in order to determine the worth of an asset is termed _____.

- A) securitization
- B) valuation
- C) discounting
- D) compounding

Answer: <https://biology-forums.com/index.php?topic=576103>

Question 2821

Consider the following projects, X and Y, where the firm can only choose one. Project X costs \$600 and has cash flows of \$400 in each of the next 2 years. Project Y also costs \$600, and generates cash flows of \$500 and \$275 for the next 2 years, respectively. Which investment should the firm choose if the cost of capital is 10 percent?

- A) Project X, since it has a higher NPV than Project Y
- B) Project Y, since it has a higher NPV than Project X
- C) Project X, since it has a lower NPV than Project Y
- D) Project Y, since it has a lower NPV than Project X

Answer: <https://biology-forums.com/index.php?topic=576779>

Question 2822

From a corporation's point of view, a disadvantage of issuing preferred stock is _____.

- A) that it increases financial leverage
- B) that it has to give fixed payments as well as voting rights to the holders
- C) its excellent merger security
- D) that the dividends are not tax-deductible

Answer: <https://biology-forums.com/index.php?topic=576215>

Question 2823

Popular takeover defense methods include white knights, poison pills, greenmail, golden parachutes, and shark repellents.

Answer: <https://biology-forums.com/index.php?topic=578088>

Question 2824

Managerial finance _____.

- A) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement
- B) involves the design and delivery of advice and financial products
- C) recognizes funds on an accrual basis
- D) devotes the majority of its attention to the collection and presentation of financial data

Answer: <https://biology-forums.com/index.php?topic=575222>

Question 2825

Greenmail is a takeover defense under which a target firm repurchases a large block of stock at a premium from one or more shareholders in order to end a hostile takeover attempt by those shareholders.

Answer: <https://biology-forums.com/index.php?topic=578087>

Question 2826

The representative theory of dividends, as espoused by Modigliani and Miller, suggests that dividends represent a significant active decision variable that affects firm value.

Answer: <https://biology-forums.com/index.php?topic=577204>

Question 2827

Creditors are primarily interested in short-term liquidity of the company and its ability to make interest and principal payments.

Answer: <https://biology-forums.com/index.php?topic=575510>

Question 2828

Under FASB Standard No. 13, which of the following element should be present to qualify as a capital lease?

- A) The lease does not transfer ownership of the property to the lessee by the end of the lease.
- B) The lease contains an option to purchase the property at a "bargain" price.
- C) The lease term is less than 50 percent of the economic life of the property.
- D) At the beginning of the lease, the present value of the lease payment is equal to 50 percent or more of the fair market value of the leased property less any investment tax credit received by the lessor.

Answer: <https://biology-forums.com/index.php?topic=577796>

Question 2829

Time value of money should be ignored in capital budgeting techniques to make accurate decisions.

Answer: <https://biology-forums.com/index.php?topic=576670>

Question 2830

The value of an asset is determined by discounting the expected cash flows back to its present value, using an appropriate discount rate.

Answer: <https://biology-forums.com/index.php?topic=576102>

Question 2831

Yield to maturity (YTM) is the rate investors earn if they buy the bond at a specific price and hold it until maturity.

Answer: <https://biology-forums.com/index.php?topic=576148>

Question 2832

Which of the following is a limitation of ratio analysis?

- A) Financial ratios cannot reveal certain specific aspects of a firm's financial position.
- B) Ratios that reveal large deviations from the norm merely indicate the possibility of a problem.
- C) It is difficult to access audited financial statements for ratio analysis.
- D) Ratio analysis assumes that inflation has no effect on a firm's business.

Answer: <https://biology-forums.com/index.php?topic=575535>

Question 2833

The option to develop follow-on projects, expand markets, expand or retool plants, and so on that would not be possible without implementation of the project that is being evaluated is called _____.

- A) growth option
- B) timing option
- C) flexibility option
- D) abandonment option

Answer: <https://biology-forums.com/index.php?topic=576945>

Question 2834

The relevant cash flows for a proposed capital expenditure are the incremental after-tax cash outflows and resulting subsequent inflows.

Answer: <https://biology-forums.com/index.php?topic=576811>

Question 2835

Net working capital is the difference between a firm's total assets and its total liabilities.

Answer: <https://biology-forums.com/index.php?topic=576836>

Question 2836

Financial managers administer the financial affairs of all types of businesses such as private and public, large and small, and profit seeking and not for profit.

Answer: <https://biology-forums.com/index.php?topic=575214>

Question 2837

The higher an asset's beta, _____.

- A) the more responsive it is to changing market returns
- B) the less responsive it is to changing market returns
- C) the higher the expected return will be in a down market
- D) the lower the expected return will be in an up market

Answer: <https://biology-forums.com/index.php?topic=576481>

Question 2838

Ashley is planning to attend college when she graduates from high school 7 years from now. She anticipates that she will need \$10,000 at the beginning of each of the four college years to pay for tuition and fees, and have some spending money. Ashley has made an arrangement with her father to do the household chores if her dad deposits \$3,500 at the end of each year for the next 7 years in a bank account paying 8 percent interest. Will there be enough money in the account for Ashley to pay for her college expenses? Assume the rate of interest stays at 8 percent during the college years.

Answer: <https://biology-forums.com/index.php?topic=575832>

Question 2839

One motive for issuing convertibles is that convertible securities can be issued with far fewer restrictive covenants than nonconvertibles.

Answer: <https://biology-forums.com/index.php?topic=577831>

Question 2840

Aunt Tilly borrows \$3,500 from the bank at 12 percent annually compounded interest to be repaid in four equal annual installments. The interest paid in the first year is _____.

- A) \$ 152
- B) \$ 277
- C) \$ 420
- D) \$1,152

Answer: <https://biology-forums.com/index.php?topic=575903>

Question 2841

Two assets whose returns move in the opposite directions and have a correlation coefficient of -1 are either risk-free assets or low-risk assets.

Answer: <https://biology-forums.com/index.php?topic=576420>

Question 2842

Under MACRS, an asset which originally cost \$10,000 is being depreciated using a 5-year normal recovery period. What is the depreciation expense in year 3?

- A) \$1,900
- B) \$1,200
- C) \$1,500
- D) \$2,100

Answer: <https://biology-forums.com/index.php?topic=575636>

Question 2843

Congratulations! You have just won the lottery! However, the lottery bureau has just informed you that you can take your winnings in one of two ways. Choice X pays \$1,000,000. Choice Y pays \$1,750,000 at the end of five years from now. Using a discount rate of 5 percent, based on present values, which would you choose? Using the same discount rate of 5 percent, based on future values, which would you choose? What do your results suggest as a general rule for approaching such problems? (Make your choices based purely on the time value of money.)

Answer: <https://biology-forums.com/index.php?topic=575794>

Question 2844

_____ costs are a function of time, not sales, and are typically contractual.

- A) Fixed
- B) Semi-variable
- C) Variable
- D) Operating

Answer: <https://biology-forums.com/index.php?topic=576988>

Question 2845

The two major sources of short-term financing are _____.

- A) a line of credit and notes payable
- B) accounts payable and accruals
- C) a line of credit and term loans
- D) accounts receivable and notes payable

Answer: <https://biology-forums.com/index.php?topic=577598>

Question 2846

A field warehouse is _____.

- A) a warehouse outside the metropolitan area
- B) a warehouse on the borrower's premises
- C) a central warehouse storing the merchandise of several businesses
- D) a warehouse located near the lender

Answer: <https://biology-forums.com/index.php?topic=577753>

Question 2847

A tax adjustment must be made in determining the cost of _____.

- A) long-term debt
- B) common stock
- C) preferred stock
- D) retained earnings

Answer: <https://biology-forums.com/index.php?topic=576569>

Question 2848

The higher the financial breakeven point and the steeper the slope of the capital structure line, the greater the financial risk.

Answer: <https://biology-forums.com/index.php?topic=577146>

Question 2849

A firm issued 5,000 shares of \$1 par-value common stock, receiving proceeds of \$20 per share. The amount recorded for the paid-in capital in excess of par account is _____.

- A) \$5,000

- B) \$95,000
- C) \$100,000
- D) \$0

Answer: <https://biology-forums.com/index.php?topic=576256>

Question 2850

Jia's Oven Manufacturing is evaluating the acquisition of Cuisinaire Kitchen Appliance Co. Cuisinaire has a loss carryforward of \$1.5 million which resulted from earlier operations. Jia's Oven can purchase Cuisinaire for \$1.8 million and liquidate the assets for \$1.3 million. Jia's Oven expects earnings before taxes in the five years following the acquisition to be as follows:

(These earnings are assumed to fall within the annual limit legally allowed for application of the tax loss carryforward resulting from the proposed acquisition.) Jia's Oven is in the 40 percent tax bracket and has a cost of capital of 17 percent.

- (a) What is the tax advantage of the acquisition each year for Jia's Oven?
- (b) What is the maximum cash price Jia's Oven would be willing to pay for Cuisinaire?
- (c) Do you recommend the acquisition? Why or why not?

Answer: <https://biology-forums.com/index.php?topic=578081>

Question 2851

A firm has had the indicated earnings per share over the last three years:

- (a) If the firm's dividend policy was based on a constant payout ratio of 50 percent, determine the annual dividend for each year.
- (b) If the firm's dividend policy was based on a fixed dollar payout policy of 50 cents per share plus an extra dividend equal to 75 percent of earnings per share above \$1.00, determine the annual dividend for each year.

Answer: <https://biology-forums.com/index.php?topic=577266>

Question 2852

Deeply discounted bond that pays no coupon interest is a _____.

- A) junk bond
- B) floating rate bond
- C) zero coupon bond
- D) subordinated debenture

Answer: <https://biology-forums.com/index.php?topic=576073>

Question 2853

A prospectus is a portion of the security registration statement that describes the key aspects of the issue, the issuer, and its management and financial position.

Answer: <https://biology-forums.com/index.php?topic=576243>

Question 2854

Tangshan Mining Company, with a cost of capital of 10 percent, is considering investing in project A, with an initial investment of \$1,000,000. Project A is expected to provide equal cash inflows over its 15 year useful life. Based on this information, the breakeven cash inflow for the project is _____.

- A) \$1,000,000
- B) \$131,474
- C) \$100,000
- D) \$66,667

Answer: <https://biology-forums.com/index.php?topic=576900>

Question 2855

As a key participant in financial transactions, individuals are _____.

- A) net demanders of funds because they save more money than they borrow
- B) net users of funds because they save less money than they borrow
- C) net suppliers of funds because they save more money than they borrow
- D) net purchasers of funds because they save more money than they borrow

Answer: <https://biology-forums.com/index.php?topic=575348>

Question 2856

The use of the unaudited financial statements for ratio analysis is preferable because it reflects the firm's true financial condition.

Answer: <https://biology-forums.com/index.php?topic=575520>

Question 2857

_____ analysis involves comparison of current to past performance and the evaluation of developing trends.

- A) Time-series
- B) Cross-sectional
- C) Marginal
- D) Break-even

Answer: <https://biology-forums.com/index.php?topic=575529>

Question 2858

The lower risk nature of long-term debt in a firm's capital structure is due to the fact that _____.

- A) the debt holders are the true owners of the firm
- B) equity capital has a fixed return
- C) creditors have a higher position in the priority of claims
- D) dividend payments are tax-deductible

Answer: <https://biology-forums.com/index.php?topic=577099>

Question 2859

As sales increase, a company needs more inventory and more employees resulting in _____.

- A) more accounts payable and accruals, and therefore increasing its spontaneous liabilities
- B) less accounts payable and accruals, and therefore decreasing its spontaneous liabilities
- C) more accounts payable and accruals, and therefore decreasing its spontaneous liabilities
- D) less accounts payable and accruals, and therefore increasing its spontaneous liabilities

Answer: <https://biology-forums.com/index.php?topic=577597>

Question 2860

Using the capital asset pricing model, the cost of common stock equity is the return required by investors as compensation for _____.

- A) the specific risk of a firm
- B) a firm's unsystematic risk
- C) price volatility of the stock
- D) a firm's nondiversifiable risk

Answer: <https://biology-forums.com/index.php?topic=576627>

Question 2861

Earnings before interest and taxes are positive above the operating breakeven point, and a loss occurs below it.

Answer: <https://biology-forums.com/index.php?topic=576971>

Question 2862

The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB) which is a not-for-profit corporation that oversees auditors of public corporations.

Answer: <https://biology-forums.com/index.php?topic=575441>

Question 2863

A call feature is a feature that allows preferred stockholders to change each share into a stated number of shares of common stock.

Answer: <https://biology-forums.com/index.php?topic=576200>

Question 2864

The three categories of a firm's statement of cash flows are _____.

- A) cash flow from operating activities, cash flow from investment activities, and cash flow from noncash activities
- B) cash flow from operating activities, cash flow from noncash activities, and cash flow from financing activities
- C) cash flow from equity activities, cash flow from investment activities, and cash flow from financing activities
- D) cash flow from operating activities, cash flow from investment activities, and cash flow from financing activities

Answer: <https://biology-forums.com/index.php?topic=575668>

Question 2865

A firm has just ended the calendar year making a sale in the amount of \$200,000 of merchandise purchased during the year at a total cost of \$150,500. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. One possible problem this firm may face is _____.

- A) low profitability
- B) insolvency
- C) inability to receive credit
- D) high leverage

Answer: <https://biology-forums.com/index.php?topic=575682>

Question 2866

Which of the following legal forms of organization is most expensive to organize?

- A) sole proprietorships
- B) partnerships
- C) corporations
- D) limited partnership

Answer: <https://biology-forums.com/index.php?topic=575233>

Question 2867

The call option in a bond has a greater chance of being exercised (to the detriment of the bondholder) if market interest rates have fallen since the bond was issued.

Answer: <https://biology-forums.com/index.php?topic=576040>

Question 2868

The rule-setting body, which authorizes generally accepted accounting principles is the _____.

- A) IFRS
- B) FASB
- C) SEC
- D) Federal Reserve System

Answer: <https://biology-forums.com/index.php?topic=575465>

Question 2869

The Glass-Steagall Act was imposed to allow commercial and investment banks to combine and work together.

Answer: <https://biology-forums.com/index.php?topic=575361>

Question 2870

XYZ Corporation borrowed \$100,000 for six months from the bank. The rate is prime plus 2 percent. The prime rate was 8.5 percent at the beginning of the loan and changed to 9 percent after two months. This was the only change. How much interest must XYZ corporation pay?

- A) \$2,476
- B) \$5,417
- C) \$18,212
- D) \$21,500

Answer: <https://biology-forums.com/index.php?topic=577681>

Question 2871

The term "risk" is used interchangeably with "uncertainty" to refer to the variability of returns associated with a given asset.

Answer: <https://biology-forums.com/index.php?topic=576358>

Question 2872

Which of the following is a difference between debt and equity capital?

- A) Debt capital does not require periodic payments, whereas equity capital requires period payments.
- B) Debt capital requires returns in proportion to profits, whereas equity capital requires a fixed rate of return.
- C) Debt capital provides a tax shield, whereas equity capital does not provide a tax shield.
- D) Debt capital affects operating leverage, whereas equity capital affects financial leverage.

Answer: <https://biology-forums.com/index.php?topic=577113>

Question 2873

A conventional cash flow pattern is one in which an initial outflow is followed only by a series of inflows.

Answer: <https://biology-forums.com/index.php?topic=576683>

Question 2874

Agents of corporate owners are themselves owners of the firm and have been elected by all the corporate owners to represent them in decision-making and management of the firm.

Answer: <https://biology-forums.com/index.php?topic=575328>

Question 2875

The _____ is created by a financial relationship between suppliers and demanders of short-term funds.

- A) stock market
- B) capital market
- C) forex market
- D) money market

Answer: <https://biology-forums.com/index.php?topic=575387>

Question 2876

A common approach of estimating the variability of returns involving the forecast of pessimistic, most likely, and optimistic returns associated with an asset is called _____.

- A) marginal analysis
- B) scenario analysis
- C) break-even analysis
- D) DuPont analysis

Answer: <https://biology-forums.com/index.php?topic=576399>

Question 2877

In general, low times interest earned ratio and fixed-payment coverage ratio are associated with a high degree of financial leverage.

Answer: <https://biology-forums.com/index.php?topic=577071>

Question 2878

The Jobs and Growth Tax Relief Reconciliation Act of 2003 significantly changed the tax treatment of corporate dividends for most taxpayers by dropping the tax rate to the rate applicable on capital gains, which is a maximum rate of 15%.

Answer: <https://biology-forums.com/index.php?topic=577178>

Question 2879

Factoring accounts receivable is relatively an inexpensive source of unsecured short-term funds that allows firms to turn accounts receivable immediately into cash.

Answer: <https://biology-forums.com/index.php?topic=577729>

Question 2880

Debentures such as convertible bonds are unsecured bonds that only the most creditworthy firms can issue.

Answer: <https://biology-forums.com/index.php?topic=576051>

Question 2881

On a purely theoretical basis, NPV is a better approach when selecting among two mutually exclusive projects.

Answer: <https://biology-forums.com/index.php?topic=576794>

Question 2882

A \$1,000, 8% bond sells for 980. \$1,000 is called the _____.

- A) current value
- B) market value
- C) par value
- D) auction value

Answer: <https://biology-forums.com/index.php?topic=576067>

Question 2883

Financial breakeven point represents the level of earnings after interest and taxes necessary for a firm to cover its fixed operating and financial changes—that is, the point at which dividends per share is equal to zero.

Answer: <https://biology-forums.com/index.php?topic=577145>

Question 2884

The _____ is the lowest rate of interest charged on business loans by the nation's leading banks to their best business borrowers.

- A) prime rate
- B) commercial paper rate

C) federal funds rate

D) treasury bill rate

Answer: <https://biology-forums.com/index.php?topic=577662>

Question 2885

If a firm increases its cash discount period, the firm's investment in accounts receivable due to non-discount takers now paying earlier is expected to decrease.

Answer: <https://biology-forums.com/index.php?topic=577487>

Question 2886

When computing the number of deposits needed to accumulate a future sum, it will take longer if the interest rates are higher, holding the future value and deposit size constant.

Answer: <https://biology-forums.com/index.php?topic=575877>

Question 2887

Market ratios only measure the risk.

Answer: <https://biology-forums.com/index.php?topic=575522>

Question 2888

The financial planning process begins with _____ financial plans that in turn guide the formation of _____ plans and budgets.

A) short-term; long-term

B) short-term; short-term

C) long-term; long-term

D) long-term; short-term

Answer: <https://biology-forums.com/index.php?topic=575696>

Question 2889

Larger the difference between an asset's worst outcome from its best outcome, the higher the risk of an asset.

Answer: <https://biology-forums.com/index.php?topic=576378>

Question 2890

Dividend reinvestment plans (DRIPs) enable stockholders to use dividends received on a firm's stock to acquire additional shares—even fractional shares—at little or no transaction (brokerage) cost.

Answer: <https://biology-forums.com/index.php?topic=577182>

Question 2891

Which of the following capital budgeting techniques ignores the time value of money?

A) payback period approach

B) net present value

C) internal rate of return

D) profitability index

Answer: <https://biology-forums.com/index.php?topic=576722>

Question 2892

On December 31, 2014, Bradshaw Corporation had \$485,000 as an ending balance for its retained earnings account. During 2015, the corporation declared a \$3.50/share dividend to its stockholders. The company has 35,000 shares of common stock outstanding. When the books were closed for 2015 year end, the corporation had a final retained earnings balance of \$565,000. What was the net profit earned by Bradshaw Corporation during 2015?

Answer: <https://biology-forums.com/index.php?topic=575505>

Question 2893

Common stockholders are often referred to as residual claimants.

Answer: <https://biology-forums.com/index.php?topic=576173>

Question 2894

Which of the following elements is required for the calculation of cash conversion cycle?

A) current assets ratio

B) average cost of goods sold

- C) average collection period
- D) cash flows from operations

Answer: <https://biology-forums.com/index.php?topic=577369>

Question 2895

Which of the following is a characteristic of convertible bonds?

- A) Conversion increases a firm's debt ratio.
- B) It is a more expensive form of financing than straight bonds.
- C) It enhances marketability of a firm's bonds.
- D) It is nothing but a put option.

Answer: <https://biology-forums.com/index.php?topic=577838>

Question 2896

To compensate for the uncertainty of future interest rates and the fact that the longer the term of a loan the higher the probability that the borrower will default, the lender typically _____.

- A) charges a higher interest rate on long-term loans
- B) reserves the right to change the terms of the loan at any time
- C) includes excessively restrictive debt provisions
- D) reserves the right to demand immediate payment at any time

Answer: <https://biology-forums.com/index.php?topic=576029>

Question 2897

Through the effects of financial leverage, when EBIT increases, _____.

- A) earnings per share will increase
- B) earnings per share will decrease
- C) fixed operating costs will decrease
- D) fixed operating costs will increase

Answer: <https://biology-forums.com/index.php?topic=577053>

Question 2898

The major attraction of a line of credit from the bank's point of view is that it eliminates the need to examine the creditworthiness of a customer each time it borrows money within the year.

Answer: <https://biology-forums.com/index.php?topic=577628>

Question 2899

The cash flows from operating activities section of the statement of cash flows includes _____.

- A) principal received
- B) cost of raw materials
- C) dividends paid
- D) stock repurchases

Answer: <https://biology-forums.com/index.php?topic=575665>

Question 2900

If a project's IRR is greater than the cost of capital, the project should be rejected.

Answer: <https://biology-forums.com/index.php?topic=576769>

Question 2901

A lease under which a lessee sells an asset for cash to a prospective lessor and then leases back the same asset is called a(n) _____.

- A) operating lease
- B) leveraged lease
- C) sale-leaseback arrangement
- D) direct lease

Answer: <https://biology-forums.com/index.php?topic=577803>

Question 2902

Operating-change restrictions gives the bank a right to revoke the line of credit if any major changes occur in a firm's financial condition or operations.

Answer: <https://biology-forums.com/index.php?topic=577646>

Question 2903

_____ measures the overall effectiveness of management in generating profits with its available assets.

- A) Total asset turnover
- B) Price/earnings ratio
- C) Return on equity
- D) Return on total assets

Answer: <https://biology-forums.com/index.php?topic=575600>

Question 2904

Consider two firms, Go Debt corporation and No Debt corporation. Both firms are expected to have earnings before interest and taxes of \$100,000 during the coming year. In addition, Go Debt is expected to incur \$40,000 in interest expenses as a result of its borrowings whereas No Debt will incur no interest expense because it does not use debt financing. However, No Debt will have to pay stockholders \$40,000 in dividend income. Both firms are in the 40 percent tax bracket. Calculate the Earnings after tax for both firms. Which firm has the higher after-tax earnings? Which firm appears to have the higher cash flow? How do you account for the difference?

Answer: <https://biology-forums.com/index.php?topic=575437>

Question 2905

The tax liability of a corporation with ordinary income of \$1,500,000 is _____.

Range of taxable income Marginal rate

- \$ 0 to \$ 50,000 15%
- 50,000 to 75,000 25
- 75,000 to 100,000 34
- 100,000 to 335,000 39
- 335,000 to 10,000,000 34
- 10,000,000 to 15,000,000 35

- A) \$498,250
- B) \$510,000
- C) \$585,000
- D) \$690,000

Answer: <https://biology-forums.com/index.php?topic=575424>

Question 2906

Tangshan Mining issued \$1,000,000 of commercial paper for \$992,500 for 45 days. Based on this information, the effective annual rate of interest on the commercial paper would be _____ (assume 360 days in a year).

- A) 6.13%
- B) 6.20%
- C) 6.32%
- D) 6.08%

Answer: <https://biology-forums.com/index.php?topic=577705>

Question 2907

In partnerships, partners can readily transfer their wealth to other partners.

Answer: <https://biology-forums.com/index.php?topic=575229>

Question 2908

Money markets are markets for long-term funds such as bonds and equity.

Answer: <https://biology-forums.com/index.php?topic=575372>

Question 2909

\$1,200 is received at the beginning of year 1, \$2,200 is received at the beginning of year 2, and \$3,300 is received at the beginning of year 3. If these cash flows are deposited at 12 percent, their combined future value at the end of year 3 is _____.

- A) \$ 6,700
- B) \$17,072
- C) \$12,510
- D) \$ 8,142

Answer: <https://biology-forums.com/index.php?topic=575834>

Question 2910

An 8 percent preferred stock with a market price of \$110 per share and a \$100 par value pays a cash dividend of _____.

- A) \$4.00
- B) \$8.00

- C) \$8.80
- D) \$80.00

Answer: <https://biology-forums.com/index.php?topic=576214>

Question 2911

One major risk a firm assumes in an aggressive financing strategy is _____.

- A) the possibility that collections will be slower than expected
- B) the possibility that long-term funds may not be available when needed
- C) the possibility that short-term funds may not be available when needed
- D) the possibility that it will run out of cash

Answer: <https://biology-forums.com/index.php?topic=577403>

Question 2912

Benchmarking is a type of cross-sectional analysis in which a firm's ratios are compared to a key competitor firm within the same industry, primarily to identify areas for improvement.

Answer: <https://biology-forums.com/index.php?topic=575513>

Question 2913

In the month of August, a firm had total cash receipts of \$10,000, total cash disbursements of \$8,000, depreciation expense of \$1,000, a minimum cash balance of \$3,000, and a beginning cash balance of \$500. The ending cash balance for August totals _____.

- A) \$1,500
- B) \$5,500
- C) \$2,500
- D) \$3,500

Answer: <https://biology-forums.com/index.php?topic=575743>

Question 2914

A functional currency is the currency of the host country in which a subsidiary primarily generates and expends cash and in which its accounts are maintained.

Answer: <https://biology-forums.com/index.php?topic=578181>

Question 2915

A computerized inventory system that simulates needed materials requirements for the finished product, and then compares production needs to available inventory balances to determine when orders should be placed is the _____.

- A) basic economic order quantity system
- B) materials requirement planning system
- C) just-in-time system
- D) red-line method

Answer: <https://biology-forums.com/index.php?topic=577424>

Question 2916

The _____ describes the relationship between nondiversifiable risk and the required rate of return.

- A) EBIT-EPS approach to capital structure
- B) supply-demand function for assets
- C) capital asset pricing model
- D) Gordon model

Answer: <https://biology-forums.com/index.php?topic=576517>

Question 2917

Which of the following is a reason for firms not using the payback method as a guideline in capital investment decisions?

- A) It gives an explicit consideration to the timing of cash flows.
- B) It cannot be specified in light of the wealth maximization goal.
- C) It is a measure of risk exposure and projects the possibility of a calamity.
- D) It is easy to calculate and has intuitive appeal.

Answer: <https://biology-forums.com/index.php?topic=576734>

Question 2918

The companies controlled by a holding company are normally referred to as its subsidiaries.

Answer: <https://biology-forums.com/index.php?topic=577955>

Question 2919

If a project's payback period is greater than the maximum acceptable payback period, we would accept it.

Answer: <https://biology-forums.com/index.php?topic=576709>

Question 2920

Under the floating inventory lien, the borrower is free to sell the merchandise and is expected to remit the amount lent against each item, along with accrued interest, to the lender immediately after the sale. The lender then releases the lien on the appropriate item.

Answer: <https://biology-forums.com/index.php?topic=577749>

Question 2921

The conflict between the goals of a firm's owners and the goals of its non-owner managers is _____.

- A) the agency problem
- B) incompatibility
- C) serious only when profits decline
- D) the window-dressing

Answer: <https://biology-forums.com/index.php?topic=575343>

Question 2922

When the market price of the common stock exceeds the conversion price, the conversion (or stock) value exceeds the par value of the convertible security.

Answer: <https://biology-forums.com/index.php?topic=577835>

Question 2923

Assuming that economic conditions remain stable, any management action that would cause current and prospective stockholders to raise their dividend expectations should decrease a firm's value.

Answer: <https://biology-forums.com/index.php?topic=576345>

Question 2924

Total assets less net fixed assets equals _____.

- A) gross assets
- B) current assets
- C) depreciation
- D) liabilities and equity

Answer: <https://biology-forums.com/index.php?topic=575473>

Question 2925

Nominal rate of interest is equal to the sum of the real rate of interest plus an inflation premium plus a risk premium.

Answer: <https://biology-forums.com/index.php?topic=575942>

Question 2926

As risk aversion increases _____.

- A) a firm's beta will remain neutral
- B) investors' required rate of return will increase
- C) a firm's beta will decrease
- D) investors' required rate of return will remain unchanged

Answer: <https://biology-forums.com/index.php?topic=576523>

Question 2927

A dividend reinvestment plan enables stockholders to _____.

- A) reinvest the dividends in money market instruments which are risk free
- B) reinvest all dividends in the firm with no accompanying increase in equity
- C) acquire additional dividends through redemption of stock
- D) acquire shares at little or no transaction costs

Answer: <https://biology-forums.com/index.php?topic=577199>

Question 2928

The average tax rate of a corporation with ordinary income of \$105,000 and a tax liability of \$24,200 is _____.

- A) 46 percent
- B) 23 percent
- C) 34 percent
- D) 15 percent

Answer: <https://biology-forums.com/index.php?topic=575427>

Question 2929

A generous philanthropist plans to make a one-time endowment to a renowned heart research center which would provide the facility with \$250,000 per year into perpetuity. The rate of interest is expected to be 8 percent for all future time periods. How large must the endowment be?

- A) \$2,314,814
- B) \$2,000,000
- C) \$3,125,000
- D) \$3,000,000

Answer: <https://biology-forums.com/index.php?topic=575815>

Question 2930

Increases in the basic cost of long-term funds or in risk will raise the required return on a bond.

Answer: <https://biology-forums.com/index.php?topic=576119>

Question 2931

What is the value of an asset which pays \$200 a year for the next 5 years and can be sold for \$1,500 at the end of five years from now? Assume that the opportunity cost is 10 percent.

Answer: <https://biology-forums.com/index.php?topic=576111>

Question 2932

Exchange rate risk is easier to protect as compared to political risk.

Answer: <https://biology-forums.com/index.php?topic=576910>

Question 2933

Because of the extensive research conducted in recent years in the area of capital structure theory, it is now possible for financial managers to pinpoint with great accuracy a firm's optimal capital structure.

Answer: <https://biology-forums.com/index.php?topic=577085>

Question 2934

The approximate before-tax cost of debt for a 15-year, 10 percent, \$1,000 par value bond selling at \$950 is _____.

- A) 10 percent
- B) 10.7 percent
- C) 12 percent
- D) 15.4 percent

Answer: <https://biology-forums.com/index.php?topic=576571>