

Question 1

The term open interest refers to the

- A) total amount of interest paid on an options margin account.
- B) number of option contracts in existence at a point in time.
- C) interest accumulated on a Treasury bond contract.
- D) striking price of an interest rate swap.

Answer: <https://biology-forums.com/index.php?topic=642989>

Question 2

If provided the nominal rate of interest (r) of 14.2% and the anticipated rate of inflation (i) of 5.5%, what is the real rate of interest (R)?

Answer: <https://biology-forums.com/index.php?topic=641222>

Question 3

The inclusion of bankruptcy risk in firm valuation

- A) acknowledges that a firm has an upper limit to debt financing.
- B) causes cost of capital curve to be linear.
- C) causes the cost of capital curve to be downward sloping regardless of capital structure.
- D) has no consequences for practical management of capital structure policy.

Answer: <https://biology-forums.com/index.php?topic=641853>

Question 4

A firm agrees to accept payments on a \$1,000,000 loan with a fixed interest rate of 8% in exchange for making the payments on a loan with floating rate payments based on LIBOR. Payments are interest only with principal due in 10 years. The firm will benefit

- A) if LIBOR falls.
- B) if LIBOR rises.
- C) if Libor remains unchanged.
- D) if LIBOR fluctuates randomly.

Answer: <https://biology-forums.com/index.php?topic=643163>

Question 5

Types of plans that businesses typically use to guide their operations include

- A) strategic plans.
- B) long-range financial plans.
- C) short-range financial plans.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642155>

Question 6

A major risk in using commercial paper for short-term financing is the inflexible repayment schedule.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642484>

Question 7

Why are longer-term bonds more sensitive to changes in interest rates than shorter-term bonds?

Answer: <https://biology-forums.com/index.php?topic=641198>

Question 8

What are the rights and obligations of the buyer and the seller of a call option on common stock?

Answer: <https://biology-forums.com/index.php?topic=643035>

Question 9

The capital asset pricing model

- A) provides a risk-return trade-off in which risk is measured in terms of the market returns.
- B) provides a risk-return trade-off in which risk is measured in terms of beta.
- C) measures risk as the correlation coefficient between a security and market rates of return.
- D) depicts the total risk of a security.

Answer: <https://biology-forums.com/index.php?topic=641020>

Question 10

MTD Inc. has a new bond issue that will net the firm \$1,603,500. The bonds have a \$1,500,000 par value, pay interest annually at a 6% coupon rate, and mature in 10 years. The firm has a marginal tax rate of 34%. The after-tax cost of the debt issue is

- A) 5.1%.
- B) 3.37%.
- C) 5.6%.
- D) 6.58%.

Answer: <https://biology-forums.com/index.php?topic=641724>

Question 11

After the stock split, the number of shares outstanding, their par value and the total common stock account will stand at

- A) 2,000,000; \$4.00; \$8,000,000.
- B) 500,000; \$8.00; \$4,000,000.
- C) 2,000,000; \$2.00; \$4,000,000.
- D) 500,000; \$2.00; \$2,000,000.

Answer: <https://biology-forums.com/index.php?topic=641981>

Question 12

If the total asset turnover decreases, then the return on equity will

- A) decrease.
- B) increase.
- C) not change.
- D) change, but in an indeterminate way.

Answer: <https://biology-forums.com/index.php?topic=640660>

Question 13

If you want to have \$1,200 in 27 months, how much money must you put in a savings account today? Assume that the savings account pays 14% and it is compounded monthly (round to the nearest \$10).

- A) \$910
- B) \$890
- C) \$880
- D) \$860

Answer: <https://biology-forums.com/index.php?topic=640796>

Question 14

Why do you think many companies compensate executives with options based on long-term increases in the value of the company's stock?

Answer: <https://biology-forums.com/index.php?topic=640456>

Question 15

Which of the following factors is least important to capital budgeting decisions?

- A) The time value of money
- B) The risk-return tradeoff
- C) Net income based on accrual accounting principles
- D) Cash flows directly resulting from the decision

Answer: <https://biology-forums.com/index.php?topic=641329>

Question 16

Buying and selling in more than one market to make a riskless profit is called

- A) profit maximization.
- B) arbitrage.
- C) international trading.
- D) cannot be determined from the above information.

Answer: <https://biology-forums.com/index.php?topic=642580>

Question 17

The timing of dividend payments will not matter if the firm's rate of return on equity and the investor's required rate of return are the same. True / False?

Answer: <https://biology-forums.com/index.php?topic=642093>

Question 18

The greater a firm's dividend payout, the _____ likely it is that the stock's price will rise above the exercise price.

- A) less
- B) more
- C) dividends have no effect on the stock's future price
- D) the answer depends on the risk-free rate.

Answer: <https://biology-forums.com/index.php?topic=643047>

Question 19

It is impossible to eliminate all risk through diversification.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641056>

Question 20

One U.S. dollar buys 112 yen and 21.5 Mexican pesos. What is price of pesos in yen?

- A) 5.21 yen
- B) .0521 yen
- C) .19 yen
- D) 4.65 yen

Answer: <https://biology-forums.com/index.php?topic=642602>

Question 21

The internal rate of return for capital projects is mathematically the same concept as the yield to maturity for bonds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641424>

Question 22

Because returns are more certain for the least risky investments, the required return on these investments should be higher than the required returns on more risky investments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640943>

Question 23

A purchaser of commodities who is completely hedged with forward contracts has eliminated the risk that prices will rise before the purchase is concluded.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642921>

Question 24

The stockholder's expected rate of return consists of a dividend yield and interest.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641264>

Question 25

EG's board of directors announced a quarterly dividend of 25 cents. The ex-dividend date is November 3. On November 2, EG's stock closed at \$40.00 per share. What is the most likely opening price on November 3?

- A) \$40.25
- B) \$39.75
- C) \$41.00
- D) \$39.00

Answer: <https://biology-forums.com/index.php?topic=641979>

Question 26

What is the NPV of the project if first year savings are only \$75,000 and the project is sold?

- A) (\$4,545)
- B) (\$15,691)
- C) \$15,691
- D) \$75,000

Answer: <https://biology-forums.com/index.php?topic=641668>

Question 27

An investor who wishes to hold a stock for five years will be most interested in the geometric average rather than in the arithmetic average return.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640973>

Question 28

How many periods would it take for the deposit to grow to \$6,798 if the interest is compounded semiannually?

- A) 17
- B) 19
- C) 21
- D) 25

Answer: <https://biology-forums.com/index.php?topic=640752>

Question 29

What is meant by the terms "favorable" and "unfavorable" leverage?

Answer: <https://biology-forums.com/index.php?topic=641849>

Question 30

Spot transactions are made immediately in the market place at the market price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642680>

Question 31

Investing in additional marketable securities and inventories creates higher profitability and lower liquidity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642561>

Question 32

Which of the following statements best represents what finance is about?

- A) How political, social, and economic forces affect corporations
- B) Maximizing profits
- C) The study of how people and businesses make investment decisions and how to finance those decisions.
- D) Reducing risk

Answer: <https://biology-forums.com/index.php?topic=640367>

Question 33

Nicholas Inc. just paid a \$2.00 dividend on its common stock and expects to continue growing dividends at an average rate of 5% each year, from now to infinity. If the required rate of return for this stock is 9% and it is currently selling for \$54.50 per share, the stock

- A) selling for exactly its intrinsic value.
- B) there is not information to determine if the stock is overpriced or underpriced.
- C) underpriced.
- D) overpriced.

Answer: <https://biology-forums.com/index.php?topic=641245>

Question 34

The current yield is the average rate of interest a bond will from the time of purchase until it matures.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641117>

Question 35

Common size income statements represent all figures on the income statement

- A) as a percentage change from the previous year.
- B) percentages of the current year's sales.
- C) as a percentage of some benchmark figure.
- D) as a percentage of total assets.

Answer: <https://biology-forums.com/index.php?topic=640596>

Question 36

Using accounts payable that must be paid within 30 days to finance inventory that turns over monthly would be an example of self-liquidating debt. True / False?

Answer: <https://biology-forums.com/index.php?topic=642363>

Question 37

What is the approximate five year survival rate for new businesses?

- A) 20%
- B) 40%
- C) 60%
- D) 80%

Answer: <https://biology-forums.com/index.php?topic=641574>

Question 38

Which of the following could offset the higher risk exposure a company would face if its current ratio and net working capital were relatively low?

- A) Its current assets would need to be highly liquid.
- B) Its accounts receivable collection policy could increase the average collection period.
- C) It could offer no discounts for early payment by its customers.
- D) It could buy back some of its shares in the open market in order to reduce its equity.

Answer: <https://biology-forums.com/index.php?topic=642280>

Question 39

Since 2015, ABC's efficiency at using its assets has

- A) improved.
- B) deteriorated.
- C) remained the same.
- D) been variable across components of the efficiency measures.

Answer: <https://biology-forums.com/index.php?topic=640664>

Question 40

If a firm's EPS are \$8.33, and the firm is paying a dividend of \$1.25 per share, what is the firm's dividend payout ratio?

- A) 33%
- B) 6%
- C) 15%
- D) 25%
- E) 66%

Answer: <https://biology-forums.com/index.php?topic=641955>

Question 41

Because issuing common equity entails less risk to the firm, it is always less expensive than borrowing.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641760>

Question 42

Five years ago, Mr. Martinez purchased 1000 shares of JPM stock at \$50 per share. The market price of the stock is now \$55. If Mr. Martinez' tax rate is 25%, would he prefer that the company pay a \$5.00 per share dividend or offer to repurchase 100 shares at the market price? Assume that after the ex-dividend date, the price would return to \$50 per share, but a stock repurchase would not affect the market price.

- A) Pay the dividend because he would have no transaction costs.
- B) As long as the tax rate on capital gains and dividends is the same, Martinez' wealth is the same under either alternative.
- C) Repurchase the stock because he would owe less taxes.
- D) He would be better off to sell the stock in the open market.

Answer: <https://biology-forums.com/index.php?topic=641977>

Question 43

Spencer Bioengineering's preferred stock has a par value of \$100 and pays a dividend of \$4.50. The current price of Spencer's preferred is \$75. Spencer's tax rate is 34%. The before tax and after tax cost of preferred equity to Spencer is

- A) 4.5%, 2.97%.
- B) 6.00%, 3.96%.

C) 6.00% , 6.00%.

D) 8.04%, 6.00%.

Answer: <https://biology-forums.com/index.php?topic=641745>

Question 44

Under the efficient market hypothesis, would securities be properly priced.

Answer: <https://biology-forums.com/index.php?topic=640987>

Question 45

If you put \$6,000 in a savings account that yields an 1% rate of interest compounded daily, what will the investment be worth at the end of one year?

A) \$6060.00

B) \$6,060.30

C) \$6,006.03

D) \$6,760.95

Answer: <https://biology-forums.com/index.php?topic=640744>

Question 46

Depreciation expenses affect capital budgeting analysis by increasing

A) taxes paid.

B) incremental cash flows.

C) the initial outlay.

D) working capital.

Answer: <https://biology-forums.com/index.php?topic=641490>

Question 47

Marketable securities are near-cash assets because they can be converted into cash quickly.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642560>

Question 48

Money has a greater time value time value

A) when rates of return are higher.

B) when rates of return are lower.

C) when the future is uncertain.

D) when investors are willing to assume greater risks.

Answer: <https://biology-forums.com/index.php?topic=640724>

Question 49

The market beta changes frequently with economic conditions.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641089>

Question 50

Which of the following goals is in the best long-term interest of stockholders?

A) Profit maximization

B) Risk minimization

C) Maximizing of the market value of the existing shareholders' common stock

D) Maximizing sales revenues

Answer: <https://biology-forums.com/index.php?topic=640413>

Question 51

Which of the following is consistent with the Tradeoff theory of capital structure?

A) The cost of capital continuously decreases as the firm's debt ratio increases.

B) The cost of capital remains constant as the firm's debt ratio increases.

C) There are no costs associated with bankruptcy.

D) There is an optimal level of debt financing.

Answer: <https://biology-forums.com/index.php?topic=641863>

Question 52

What is the NPV of the project if it is expanded?

- A) \$100,000
- B) \$500,000
- C) \$300,000
- D) \$600,000

Answer: <https://biology-forums.com/index.php?topic=641664>

Question 53

The market values of Spencer's long-term capital sources differ from the book values because

- A) market values are easier to verify than book values.
- B) book values are established at the time securities are issued rather than what the same securities could be sold for if they were issued today.
- C) market values are established according to generally accepted accounting principles (GAAP).
- D) All of the above are true.

Answer: <https://biology-forums.com/index.php?topic=641706>

Question 54

Comparative leverage ratio analysis does not involve the use of industry norms.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641933>

Question 55

The salvage value of equipment should not be considered when replacing it with new equipment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641560>

Question 56

There is no actual buying or selling that occurs with a futures contract.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643013>

Question 57

Sensitivity analysis shows how the distribution of possible net present values is affected by a change in one input variable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641617>

Question 58

Which of the following is most likely to occur if a firm under-invests in net working capital?

- A) The firm might not have sufficient cash to pay its bill in a timely manner.
- B) The firm might not have adequate inventory to meet the needs of its customers.
- C) The firm could be losing sales because its terms of sale are too strict.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=642294>

Question 59

The only definite result from a stock dividend or a stock split is

- A) an increase in the P/E ratio.
- B) an increase in the common stock's market value.
- C) an increase in the number of shares outstanding.
- D) cannot be determined from the above.

Answer: <https://biology-forums.com/index.php?topic=641967>

Question 60

Based on current market values, Shawhan Supply 's capital structure is 30% debt, 20% preferred stock, and 50% common stock. When using book values, capital structure is 25% debt, 10% preferred stock, and 65% common stock. The required return on each component is: debt, 10% before tax; preferred stock, 11%; and common stock, 18%. The marginal tax rate is 35%. What rate of return must Shawhan Supply earn on its investments if the value of the firm is to remain unchanged?

- A) 14.20%
- B) 13.15%
- C) 10.0%

D) 9.23%

Answer: <https://biology-forums.com/index.php?topic=641772>

Question 61

Multinational corporations can have lower cost of capital and more continuous access to external finance compared to a domestic firm.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642812>

Question 62

Consider cash flows for Projects X and Y such as:

Project X Project Y

Year 1 \$3000 \$ 0

Year 2 \$ 0 \$3000

A rational person would prefer receiving cash flows sooner because

- A) the money can be reinvested.
- B) the money is nice to have around.
- C) the investor may be tired of a particular investment.
- D) the investor is indifferent to either proposal.

Answer: <https://biology-forums.com/index.php?topic=640434>

Question 63

Finance managers need to interact constantly with

- A) marketing managers.
- B) accounting staff.
- C) management information systems staff.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=640370>

Question 64

The exchange rate that represents the number of units of a home currency that is required to purchase one unit of a foreign currency is referred to as a(n) _____ quote.

- A) forward
- B) direct
- C) market
- D) indirect

Answer: <https://biology-forums.com/index.php?topic=642653>

Question 65

Futures and currency swaps eliminate unfavorable price movements, whereas options can be used to eliminate the effect of both favorable and unfavorable price movements.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643171>

Question 66

Bonds are less risky than are stocks because their return is more predictable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640495>

Question 67

Georgia Peaches Corporation (GPC) has a line of credit with Trust Company Bank that allows GPC to borrow up to \$300,000 at an annual interest rate of 5.5%. However, GPC must keep a compensating balance of 20% of any amount borrowed on deposit at the Trust Company Bank. GPC does not normally have a cash balance account with the Trust Company. What is the effective annual cost of credit?

- A) 6.875%
- B) 6.975%
- C) 7.075%
- D) 7.775%

Answer: <https://biology-forums.com/index.php?topic=642444>

Question 68

Investment variances may be either positive or negative.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640946>

Question 69

Holding other things constant, a firm's "discretionary financing needed" (the additional funds required in order to finance the firm) would be reduced if the firm experienced an increase in which of the following?

- A) The dividend pay-out ratio
- B) The profit margin
- C) The accounts receivable average collection period
- D) The expected growth rate in sales

Answer: <https://biology-forums.com/index.php?topic=642199>

Question 70

Fred Handel owns 2000 shares of Haydn Inc. stock which is currently selling for \$18 per share. If the company repurchases 10% of its outstanding shares at \$18 per share and Fred chooses not to sell any shares back to the company,

- A) the value of his shares will stay the same and his percentage ownership of the company will increase by 10%.
- B) his investment in the company and his percentage of ownership will stay the same.
- C) his investment in the company will decrease by \$3,600 and his percentage of ownership will stay the same.
- D) the value of his remaining shares will stay the same and his percentage of ownership will increase by 11.11%.

Answer: <https://biology-forums.com/index.php?topic=642081>

Question 71

The standard deviation of returns on Warchester stock is 20% and on Shoesbury stock it is 16%. The coefficient of correlation between the stocks is .75. The standard deviation of any portfolio combining the two stocks will be less than 20%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641009>

Question 72

Your portfolio consists of \$3,000 in ABC stock, \$4,500 of DEF stock and \$2,500 of GHI stock. Expected rates of return are ABC 5%, DEF 12%, and GHI 16%. What is the portfolio expected rate of return?

- A) 10.9%
- B) 12.0%
- C) 11.4%
- D) 16.0%

Answer: <https://biology-forums.com/index.php?topic=640992>

Question 73

The principal participants in in the financial markets are

- A) businesses, banks, government.
- B) borrowers, savers, financial institutions.
- C) mutual funds, hedge funds, investment bankers.
- D) dealers, brokers, regulators.

Answer: <https://biology-forums.com/index.php?topic=640458>

Question 74

One type of real option is to delay the beginning of a project until conditions are more favorable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641677>

Question 75

The appropriate measure for risk according to the capital asset pricing model is

- A) the standard deviation of a firm's cash flows.
- B) alpha.
- C) beta.
- D) probability of correlation.

Answer: <https://biology-forums.com/index.php?topic=641021>

Question 76

The risk-return tradeoff tells us that expected returns should be higher on investments that have higher risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640955>

Question 77

A friend of yours would like you to lend him \$5,000 today to be paid back in 5 annual payments. What would be the equal annual end-of-year payment on this loan if you charge your friend 7% interest?

- A) \$869.45
- B) \$1,000.00
- C) \$1,219.51
- D) \$1,350.00

Answer: <https://biology-forums.com/index.php?topic=640857>

Question 78

Which of the following is a good measure of the relationship between an investment's returns and the market's returns?

- A) The beta coefficient
- B) The standard variation
- C) The CPI
- D) The S&P 500 Index

Answer: <https://biology-forums.com/index.php?topic=641049>

Question 79

Briefly discuss the incentives for financial managers to conduct their business in an ethical manner.

Answer: <https://biology-forums.com/index.php?topic=640430>

Question 80

A firm purchased an asset with a 5-year life for \$90,000, and it cost \$10,000 for shipping and installation. According to the current tax laws the cost basis of the asset at time of purchase is

- A) \$100,000.
- B) \$95,000.
- C) \$80,000.
- D) \$70,000.

Answer: <https://biology-forums.com/index.php?topic=641492>

Question 81

In 2013, Apple Computers decided to raise a large amount of money by selling bonds (previously the company had little or no debt) and use the proceeds to repurchase billions of dollars worth of the company's stock. The decision was made after Apple stock lost more than 40% of its value in a six month period when most stock prices were rising. What were the company's intentions.

Answer: <https://biology-forums.com/index.php?topic=642112>

Question 82

You are considering the purchase of AMDEX Company stock. You anticipate that the company will pay dividends of \$2.00 per share next year and \$2.25 per share the following year. You believe that you can sell the stock for \$17.50 per share two years from now. If your required rate of return is 12%, what is the maximum price that you would pay for a share of AMDEX Company stock?

Answer: <https://biology-forums.com/index.php?topic=641275>

Question 83

A(n) _____ gives the holder the right to buy a stated number of shares at a specified price for a limited time.

- A) stock index futures contract
- B) put option
- C) call option
- D) interest rate futures contract

Answer: <https://biology-forums.com/index.php?topic=642947>

Question 84

The final approval of a dividend payment comes from the

- A) controller.
- B) president of the company.
- C) board of directors.

D) Chief Financial Officer.

Answer: <https://biology-forums.com/index.php?topic=641965>

Question 85

Which of the following expenses should be included when estimating cash flows for investment projects?

- A) Interest expense related to financing a project
- B) Sunk costs
- C) Required principal payments related to financing a project
- D) Opportunity costs

Answer: <https://biology-forums.com/index.php?topic=641460>

Question 86

Aurand, Inc. has outstanding bonds with an 8% annual coupon rate paid semiannually. The bonds have a par value of \$1,000, a current price of \$904, and will mature in 14 years. What is the annual yield to maturity on the bond?

- A) 15.80%
- B) 10.47%
- C) 9.24%
- D) 7.90%
- E) 4.62%

Answer: <https://biology-forums.com/index.php?topic=641144>

Question 87

Woodstock Inc. expects to own a building for five years, then sell it for \$1,500,000 net of taxes, sales commissions and other selling costs. Woodstock's cost of capital is 11%. How much will the sale of the building contribute to the NPV of the project?

- A) \$890,177
- B) \$1,351,351
- C) \$1,500,000
- D) \$2,527,587

Answer: <https://biology-forums.com/index.php?topic=641508>

Question 88

The direct 3 month forward rate for the U.K. pound is 1.4496; the pound is expected to

- A) stay the same against the dollar.
- B) weaken against the dollar.
- C) fluctuate randomly against the dollar.
- D) strengthen against the dollar.

Answer: <https://biology-forums.com/index.php?topic=642626>

Question 89

In a perfectly efficient market, all assets would plot on the Security Market Line.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641092>

Question 90

Which of the following factors favors the use of more debt in a company's financial structure?

- A) High levels of taxable income
- B) Low levels of taxable income
- C) The business is basically risky with unpredictable cash flows.
- D) Risk of bankruptcy would make customers reluctant to buy the company's products.

Answer: <https://biology-forums.com/index.php?topic=641896>

Question 91

Variable cost for Light.com's fluorescent tubes is \$12.50, the tubes are sold over the internet to businesses and organizations for \$20.00 each. Fixed costs are \$7,500,000. What is the break-even quantity for the fluorescent tubes?

- A) 600,000
- B) 1,000,000
- C) 375,000
- D) 7,500,000

Answer: <https://biology-forums.com/index.php?topic=641634>

Question 92

Holden Corporation has declared a stock dividend that pays 5 shares of stock for every 10 0 shares owned. What will happen to EPS immediately upon the distribution of the stock dividend?

- A) EPS will increase by 5%.
- B) EPS will decrease by 5%.
- C) EPS will not be affected by the stock dividend.
- D) EPS will decrease by 4.76%.

Answer: <https://biology-forums.com/index.php?topic=641945>

Question 93

The machine's after-tax incremental cash flow in year five is

- A) \$6,980.
- B) \$5,980.
- C) \$7,120.
- D) \$8,620.

Answer: <https://biology-forums.com/index.php?topic=641498>

Question 94

Most criticism of the Sarbanes-Oxley Act focuses on

- A) the excessive cost of compliance.
- B) inadequate penalties for violations.
- C) diminished competitiveness of U.S. corporations in international markets.
- D) decreased confidence in financial reporting.

Answer: <https://biology-forums.com/index.php?topic=640419>

Question 95

Incremental cash flows include all of the following EXCEPT:

- A) research and development costs.
- B) increased labor costs from the project.
- C) advertising costs .
- D) both B and C.

Answer: <https://biology-forums.com/index.php?topic=641483>

Question 96

If a country is has high interest rates because of inflation, the forward price of its currency will be higher than the spot price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642757>

Question 97

Only a few financial decisions involve some sort of risk-return tradeoff.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640450>

Question 98

Using the original Modigliani and Miller assumptions if a firm's cost of capital is 12% when it is all equity financed and it's cost of debt is 8%, the cost of equity will be _____% when the firm is financed with equal amount of debt and equity.

- A) 12%
- B) 24%
- C) 16%
- D) cannot be determined with the information given.

Answer: <https://biology-forums.com/index.php?topic=641861>

Question 99

Which of the following represents an attempt to measure the earnings of the firm's operations over a given time period?

- A) Balance sheet
- B) Cash flow statement
- C) Income statement
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640509>

Question 100

_____ indicates management's effectiveness in managing the firm's income statement.

- A) Gross profit margin
- B) Operating profit margin
- C) Net profit margin
- D) Return on assets

Answer: <https://biology-forums.com/index.php?topic=640670>

Question 101

SpaceTech is considering a new project with the following projections for Year 2.

Year 2 Projections

EBIT \$400,000

Interest Expense \$20,000

Depreciation Expense \$40,000

Tax Rate 40%

Incremental Net Working

Capital Needs \$200,000

Compute the operating cash flow for year 2.

- A) \$80,000
- B) \$180,000
- C) \$240,000
- D) \$280,000

Answer: <https://biology-forums.com/index.php?topic=641515>

Question 102

Open interest provides the investor with some indication of the amount of liquidity associated with a particular option.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643027>

Question 103

Suppose you determine that the NPV of a project is \$1,525,855. What does that mean?

- A) If they are mutually exclusive, this project should be preferred to one that has an NPV of \$850,000.
- B) The project would add value to the firm.
- C) The present value of positive cash flows exceeds the present value of negative cash flows.
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641353>

Question 104

Chelsea Corporation's cost of equity is 16% and it is 100% equity financed. If it can borrow enough money at 10% to buy back half of its stock, what would happen to the cost of equity be under the original assumptions of the Modigliani and Miller Capital Structure Theorem.

- A) It would remain at 16%.
- B) It would rise to 22%.
- C) It would fall to 11%.
- D) It would fall to 13%.

Answer: <https://biology-forums.com/index.php?topic=641877>

Question 105

Operating cash flow will increase with a decrease in

- A) inventories.
- B) current liabilities.
- C) depreciation expense.
- D) capital expenditures.

Answer: <https://biology-forums.com/index.php?topic=640583>

Question 106

Zybeck Corp. projects operating income of \$4 million next year. The firm's income tax rate is 40%. Zybeck presently has 750,000 shares of common stock which have a market value of \$10 per share, no preferred stock, and no debt. The firm is considering two alternatives to finance a new product: (a) the issuance of \$6 million of 10% bonds, or (b) the issuance of 60,000 new shares of common stock at \$10 per share. If Zybeck issues common

stock this year, what will the firm's return on equity be next year?

- A) 16.7%
- B) 18.2%
- C) 22.1%
- D) 26.4%
- E) 29.6%

Answer: <https://biology-forums.com/index.php?topic=641922>

Question 107

When a bond's cash flows are discounted at the yield to maturity their present value will equal the purchase price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641163>

Question 108

If managers are making decisions to maximize shareholder wealth, then they are primarily concerned with making decisions that should

- A) positively affect profits.
- B) increase the market value of the firm's common stock.
- C) either increase or have no effect on the value of the firm's common stock.
- D) accomplish all of the above.

Answer: <https://biology-forums.com/index.php?topic=640411>

Question 109

From the firm's point of view, a major advantage of stock repurchases over cash dividends is

- A) a commitment to maintain or increase repurchases every year.
- B) a stronger signal about the firm's financial strength.
- C) that they restrain agency costs.
- D) that the repurchases imply no commitment to pay the same amount or more every year.

Answer: <https://biology-forums.com/index.php?topic=642126>

Question 110

You have borrowed \$70,000 to buy rental property. You plan to make monthly payments over a 15-year period. The bank has offered you a 9% interest rate compounded monthly. Calculate the principal paid to the bank in month two of the loan. Assume end-of-period payments.

- A) \$184.01
- B) \$186.38
- C) \$188.46
- D) \$190.64
- E) \$192.73

Answer: <https://biology-forums.com/index.php?topic=640852>

Question 111

The correct equation for calculating the cost of short-term credit is

- A) $\text{rate} = \text{interest}/(\text{principal} \times \text{time})$.
- B) $\text{rate} = (\text{principal} \times \text{time})/\text{interest}$.
- C) $\text{rate} = \text{principal}/(\text{time} \times \text{interest})$.
- D) $\text{rate} = \text{principal} \times \text{interest} \times \text{time}$.

Answer: <https://biology-forums.com/index.php?topic=642420>

Question 112

Cape Cod Cranberries will finance a new organic juice production facility with a \$10,000,000 bond issue. Interest on the bonds will be \$637,500 per year for the life of the project. Should the interest payments be subtracted from the project's incremental cash flows?

Answer: <https://biology-forums.com/index.php?topic=641477>

Question 113

A bond with a face value of \$1,000 has annual coupon payments of \$100 and was issued seven years ago. The bond currently sells for \$1,085, has eight years left to maturity. This bond's _____ must be less than 10%.

- A) current yield
- B) coupon rate
- C) current yield and coupon rate
- D) yield to maturity and current yield

Answer: <https://biology-forums.com/index.php?topic=641183>

Question 114

Chandler Corporation has 1 million shares outstanding. The current price per share is \$20. If the company decides to use \$2 million dollars to repurchase shares at the market price, the company will have _____ shares outstanding worth approximately _____. Assume that the price does not change during the repurchase period.

- A) 900,000, \$20 per share
- B) 1,000,000, \$20 per share
- C) 900,000, \$22.22 per share
- D) 1,000,000, \$18 per share

Answer: <https://biology-forums.com/index.php?topic=642057>

Question 115

The weighted cost of capital assumes that the company maintains a constant debt to equity ratio.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641786>

Question 116

Stonehedge Dairy will expand its organic yogurt production capacity at a cost of \$10,000,000. The expansion will increase after-tax operating cash by \$1.4 million dollars per year for the next 20 years. Stonehedge's WACC is 10%. To raise the \$10,000,000 Stonehedge will need to issue new securities at a weighted average flotation cost of 10%. What is the NPV of the expansion?

- A) \$918,989
- B) \$807,878
- C) \$11,918,989
- D) \$1,918,989

Answer: <https://biology-forums.com/index.php?topic=641812>

Question 117

Top management's desire to avoid the scrutiny that comes with higher levels of debt may influence the capital structures of some firms.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641904>

Question 118

Currently, the expected return on the market is 12.5% and the required rate of return for Alpha, Inc. is 12.5%. Therefore, Alpha's beta must be

- A) less than 1.0.
- B) greater than 1.0.
- C) equal to 1.0.
- D) unknown based on the information provided.

Answer: <https://biology-forums.com/index.php?topic=641046>

Question 119

Your firm has the following income statement items: sales of \$50,250,000; income tax of \$1,744,000; operating expenses of \$8,750,000; cost of goods sold of \$35,025,000; and interest expense of \$750,000. What is the amount of the firm's net income?

- A) \$255,223
- B) \$4,731,000
- C) \$2,616,000
- D) \$7,775,000

Answer: <https://biology-forums.com/index.php?topic=640528>

Question 120

Beginning cash balance + cash flow from operations + cash flow from investing activities + cash flow from financing activities = ending cash balance.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640586>

Question 121

Which of the following is the correct method of determining discretionary financing needed (DFN)?

- A) Projected change in assets, divided by projected change in liabilities, plus projected change in owner's equity
- B) Projected change in assets, times projected change in owner's equity, minus projected change in liabilities
- C) Projected change in owner's equity, minus projected change in liabilities, plus projected change in assets
- D) Projected change in assets, minus projected change in liabilities, minus projected change in owner's equity

Answer: <https://biology-forums.com/index.php?topic=642193>

Question 122

Suppose that you wish to save for your child's college education by opening up an educational IRA. You plan to deposit \$100 per month into the IRA for the next 18 years. Assume that you will be able to earn 10%, compounded monthly, on your investment. How much will you have accumulated at the end of 18 years?

- A) \$21,600
- B) \$54,719
- C) \$33,548
- D) \$85,920
- E) \$60,056

Answer: <https://biology-forums.com/index.php?topic=640866>

Question 123

A stock's market value is dependent on investors' expectations of future cash flows to the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640498>

Question 124

Which of the following is NOT considered in the calculation of incremental cash flows?

- A) Depreciation tax shield
- B) Sunk costs
- C) Opportunity costs
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=641449>

Question 125

George and Laura will be retiring in four years and would like to buy a lake house. They estimate that they will need \$550,000 at the end of four years to buy this house. They want to make four equal annual payments into an account at the end of each year. If they can earn 8% on their money, compounded annually, over the next four years, how much must they invest at the end of each year for the next four years to have accumulated \$550,000 by retirement?

- A) \$137,500
- B) \$122,056
- C) \$113,015
- D) \$131,821

Answer: <https://biology-forums.com/index.php?topic=640842>

Question 126

Pro forma statements are important since they formally report the performance of the firm during a previous reporting period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642221>

Question 127

When evaluating projects with real options, businesses must consider the probability that the option will be exercised.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641676>

Question 128

Project Zeta is expected to produce after-tax cash flows of \$30 million in year 1, \$40 million in year 2, and \$50 million in year 3. If the company uses a 12% required rate of return, what is the most it can invest in this project and break even with respect to NPV?

- A) \$69.03 million
- B) \$94.26 million
- C) \$1.11 million
- D) \$120 million

Answer: <https://biology-forums.com/index.php?topic=641646>

Question 129

The CAPM designates the risk-return tradeoff existing in the market, where risk is defined in terms of beta.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641055>

Question 130

Briefly explain why each of the following should or should not be considered in forecasting incremental cash flows from a project:

- the cost of building a prototype of a new product to see if it was feasible.
- market research suggests that after buying a company's "smart phone" customers will begin to buy more of the same company's notebook computers.
- a company decides to use existing space for storage. The company could have rented the space to another business for \$2,500 a month.

Answer: <https://biology-forums.com/index.php?topic=641476>

Question 131

The original cost and expected life of old assets are critical considerations in replacement decisions.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641562>

Question 132

An example of commodity risk would be

- volatile exchange rates with countries from which commodities are imported.
- the price of copper for electrical contractors.
- volatile exchange rates with countries to which commodities are exported.
- raw materials that do not meet quality specifications.

Answer: <https://biology-forums.com/index.php?topic=642828>

Question 133

Flotation costs are usually ignored when computing the NPV of projects financed with newly issued securities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641819>

Question 134

Foreign-exchange risk can be important even for firms that have only U.S. operations.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642850>

Question 135

L. Stevens Inc. uses permanent sources of financing to cover its peak level of current assets. When it does not need the money to finance inventories and accounts receivable, it invests the excess funds in short-term certificates of deposit. What are the advantages and disadvantages of this policy?

Answer: <https://biology-forums.com/index.php?topic=642381>

Question 136

The highest cost of capital at which a project can reach break-even NPV is the project's

- component cost of capital.
- cost of common equity.
- project-specific cost of capital.
- internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=641779>

Question 137

Which of the following techniques places the greatest emphasis on cash flows received early in the life of a project?

- IRR
- NPV
- PI
- Payback

Answer: <https://biology-forums.com/index.php?topic=641436>

Question 138

Pursuant to the Fisher Effect, the nominal rate of interest is 5.00%, the inflation rate is 2.00% and the real rate of interest is

- 5%, same as the nominal rate.
- 2.94%.
- 3.00%.

D) 7.00%.

Answer: <https://biology-forums.com/index.php?topic=641214>

Question 139

An increase in the _____ is likely to encourage a corporation to increase its debt ratio.

- A) corporate tax rate
- B) personal tax rate
- C) company's degree of operating leverage
- D) expected cost of bankruptcy

Answer: <https://biology-forums.com/index.php?topic=641913>

Question 140

In order to send your oldest child to law school when the time comes, you want to accumulate \$40,000 at the end of 18 years. Assuming that your savings account will pay 6% compounded annually, how much would you have to deposit if:

- a. you want to deposit an amount annually at the end of each year?
- b. you want to deposit one large lump sum today?

Answer: <https://biology-forums.com/index.php?topic=640932>

Question 141

Which of the following streams of income is not affected by how a firm is financed (whether with debt or equity)?

- A) Net profit after tax but before dividends
- B) Net working capital
- C) Operating income
- D) Income before tax

Answer: <https://biology-forums.com/index.php?topic=640523>

Question 142

Factoring involves selling accounts receivable to a financial institution at a discount to obtain short-term funds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642493>

Question 143

Lightbulbs.com sells industrial and institutional lighting supplies through its website. It sells directly to businesses and organizations such as universities and hospitals on terms of net 90. To finance its rather large investments in receivables and inventory, the firm has an average need for \$2,000,000 in short-term loans. It is choosing between 3 alternative arrangements:

Converse Bank offers a 4.75% APR with interest and principal paid at the end of the year.

Guaranty Bank offers a rate of 4.5% with interest discounted at the time of the loan.

County Bank offers 4.25% with a 10% compensating balance.

Which bank offers the APR when all terms of the loan are considered? You may assume that required amounts are borrowed for the full year.

Answer: <https://biology-forums.com/index.php?topic=642516>

Question 144

What is a series of equal payments to be received at the beginning of each period, for a finite period of time, called?

- A) A perpetuity
- B) An annuity due
- C) A cash cow
- D) A deferred annuity

Answer: <https://biology-forums.com/index.php?topic=640871>

Question 145

The cumulative dividend feature is necessary to protect the rights of preferred stockholders.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641320>

Question 146

Which of the following international business activities constitutes a foreign direct investment? All firms mentioned are U.S. based.

- A) Yanqui Spirits imports a 1000 cases of rum from the Dominican Republic.
- B) WMT Inc. opens a big-box retail facility in Nicaragua.
- C) Condor University runs training sessions for Indonesian civil servants on its California Campus.

D) Merkizer Pharmaceuticals licenses an Indian company to manufacture a drug under its patents.

Answer: <https://biology-forums.com/index.php?topic=642772>

Question 147

On any given day, a bond can be issued at

- A) a discount.
- B) a premium.
- C) par.
- D) any of the above.

Answer: <https://biology-forums.com/index.php?topic=641112>

Question 148

Merrimac Brewing company's total assets equal \$18 million. The book value of Merrimac's equity is \$6 million. Excess cash is \$200,000. The market value of Merrimac's equity is \$10 million. It's Debt to Enterprise Value ratio is .5. What is Merrimac's Debt Ratio?

- A) .75
- B) .67
- C) .33
- D) .25

Answer: <https://biology-forums.com/index.php?topic=641832>

Question 149

The difference between returns on stocks and government bonds is known as

- A) the equity risk premium.
- B) the risk and return tradeoff.
- C) the maturity premium.
- D) the risk/reward paradox.

Answer: <https://biology-forums.com/index.php?topic=640953>

Question 150

Generally Accepted Accounting Principles (GAAP) require companies to smooth earnings by shifting some profits from good years to bad years. True / False?

Answer: <https://biology-forums.com/index.php?topic=640542>

Question 151

The percent-of-sales method is more detailed than the cash budget method.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642267>

Question 152

The better the bond rating, the lower the rate of return demanded in the capital markets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641166>

Question 153

The objective of capital structure management is to maximize the market value of the firm's equity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641886>

Question 154

The depreciation method used in capital budgeting is irrelevant because any depreciation not taken during the life of the project will add to the book value when assets are sold.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641529>

Question 155

Capital leasing is mutually advantageous to lessor and lessee when

- A) when the lessee only needs the asset for a fraction of its useful life.
- B) when the lessee does not want to have additional debt on the balance sheet.
- C) when the lessee has a higher taxrate than the lessor.

D) the lessor has a higher tax rate than the lessee.

Answer: <https://biology-forums.com/index.php?topic=641930>

Question 156

Which of the following is true about bonds?

- A) They are obligations from the investor to the corporation.
- B) Their interest rate always varies with the Consumer Price Index
- C) They have a fixed maturity, and they pay an amount equal to the maturity value times the coupon rate each year.
- D) At maturity of the bond, the investor receives the market price of the bond.

Answer: <https://biology-forums.com/index.php?topic=640482>

Question 157

The value of preferred shares is affected by changes in interest rates.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641323>

Question 158

Kiosk Corp. has current assets of \$4.5 million and current liabilities of \$3.6 million. The current ratio is 1.25, and the quick ratio is 0.75. How much does Kiosk have invested in inventory (in millions)?

- A) \$0.8
- B) \$1.8
- C) \$2.4
- D) \$2.9
- E) \$3.6

Answer: <https://biology-forums.com/index.php?topic=640683>

Question 159

If a stock price increased after a dividend increase, investors probably interpreted the increase as a signal from management that the company expects sustainably higher cash flows in the future.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642085>

Question 160

Options contracts all expire on the last trading day of the month.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643009>

Question 161

Currier & Ive's Lithography has a Cost of Goods Sold of \$60.8 million. The company's accounts payable balance is \$7.5 million. Its accounts payable deferral period is

- A) 81 days.
- B) 45 days.
- C) 8.11 days.
- D) 48.7 days.

Answer: <https://biology-forums.com/index.php?topic=642391>

Question 162

What is the present value of the following uneven stream of cash flows? Assume a 6% discount rate and end-of-period payments. Round to the nearest whole dollar.

Year Cash Flow

- 1 \$3,000
- 2 \$4,000
- 3 \$5,000

- A) \$10,588
- B) \$11,461
- C) \$12,688
- D) \$13,591

Answer: <https://biology-forums.com/index.php?topic=640912>

Question 163

Which of the following would cause free cash flow to differ from operating cash flow when an investment project is terminated?

- A) Sale of assets
- B) Recovery of net working capital
- C) Income taxes
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641509>

Question 164

The profitability index provides the same accept/reject decision result as the net present value (NPV) method but would not necessarily rank mutually exclusive projects the same way.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641420>

Question 165

Assume that Home Depot's annual dividend is \$3.00 per share. This dividend would most likely be paid as

- A) \$1.50 twice a year.
- B) \$3.00 once a year.
- C) whenever the company had extra cash.
- D) \$0.75 four times per year.

Answer: <https://biology-forums.com/index.php?topic=641944>

Question 166

When a company has an initial public offering

- A) the previous owner of the shares will bet the money and the buyer will get the shares.
- B) the proceeds of the sale will not affect the company's balance.
- C) the proceeds of the sale will increase the company's equity.
- D) the proceeds of the sale will become a liability payable to the shareholders.

Answer: <https://biology-forums.com/index.php?topic=641249>

Question 167

Alio e Olio has restaurants throughout the United States, Canada, and Western Europe. It is considering a proposal to open several restaurants in major cities of India and China.

- A) Alio e Olio should use the company's overall WACC to evaluate all proposals.
- B) Alio e Olio should use a lower discount rate for new ventures to be sure it does not miss out on opportunities.
- C) Alio e Olio should evaluate projects in different regions at discount rates that reflect the risk inherent in those projects.
- D) Alio e Olio should adjust the discount rate for specific regions to reflect the specific sources of funding used.

Answer: <https://biology-forums.com/index.php?topic=641794>

Question 168

What is the value of d_2 that should be used when calculating the value of a call option on this stock with the Black-Scholes option pricing model?

- A) .33464
- B) .07483
- C) .40822
- D) .01842

Answer: <https://biology-forums.com/index.php?topic=643157>

Question 169

An increase in _____ will increase common equity.

- A) paid in capital
- B) retained earnings
- C) dividends paid
- D) both A and C

Answer: <https://biology-forums.com/index.php?topic=640616>

Question 170

All of the following operate as financial intermediaries EXCEPT

- A) commercial banks.

- B) mutual funds.
- C) insurance companies.
- D) the U. S. Treasury

Answer: <https://biology-forums.com/index.php?topic=640464>

Question 171

Schiller Construction Inc. has estimated the following revenues and expenses related to phase I of a proposed new housing development. Incremental sales= \$5,000,000, total cash operating expenses \$3,500,000, depreciation \$500,000, taxes 35%, interest expense, \$200,000. Operating cash flow equals

- A) \$650,000.
- B) \$1,000,000.
- C) \$1,150,000.
- D) \$975,000.

Answer: <https://biology-forums.com/index.php?topic=641482>

Question 172

You have decided to invest \$500 in a mutual fund today and make \$500 end-of-the-year investments in the fund each year until you retire for 40 years. Assuming an opportunity cost of 12%, what do you estimate that you will have in this account at retirement?

Answer: <https://biology-forums.com/index.php?topic=640926>

Question 173

A swap is generally structured so that no money initially changes hands.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643179>

Question 174

Central Mass Ambulance Service can purchase a new ambulance for \$200,000 that will provide an annual net cash flow of \$50,000 per year for five years. The salvage value of the ambulance will be \$25,000. Assume the ambulance is sold at the end of year 5. Calculate the NPV of the ambulance if the required rate of return is 9%. (Round your answer to the nearest \$1.)

- A) \$(10,731)
- B) \$10,731
- C) \$(5,517)
- D) \$5,517

Answer: <https://biology-forums.com/index.php?topic=641346>

Question 175

The principal reason for preparing common size statements is

- A) to make meaningful comparisons between firms that are not the same size.
- B) to make meaningful comparisons between different quarters within the fiscal year.
- C) to eliminate the effects of inflation.
- D) to make meaningful comparisons between firms in different industries.

Answer: <https://biology-forums.com/index.php?topic=640594>

Question 176

An annuity involves depositing or investing a single sum of money and allowing it to grow for a certain number of years.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640875>

Question 177

What motivates users of raw materials to hedge future prices by entering into futures contracts? What is the disadvantage of this practice?

Answer: <https://biology-forums.com/index.php?topic=642931>

Question 178

All of the following are true about insurance companies EXCEPT

- A) They invest their reserves.
- B) They may guarantee to reimburse lenders should lenders' loans go into default.
- C) They participate in equipment leasing.
- D) They may only invest their reserves in interest paying bank accounts under Federal law.

Answer: <https://biology-forums.com/index.php?topic=640465>

Question 179

Project Black Swan requires an initial investment of \$115,000. It has positive cash flows of \$140,000 for each of the next two years. Because of major demolition and environmental clean-up costs, cash flow for the third and final year of the project is \$(170,000). If the company's required rate of return is 12%, the project should be

- A) rejected because the IRR is less than 12%.
- B) accepted because the NPV is positive at 12%.
- C) the project is unacceptable at any discount rate.
- D) rejected because there may be more than one IRR.

Answer: <https://biology-forums.com/index.php?topic=641384>

Question 180

The owner of a large, diversified stock portfolio could hedge against a steep decline in prices by

- A) buying call options on a stock index.
- B) buying put options on a stock index.
- C) selling put options on a stock index.
- D) buying both call and put options with the same expiration date.

Answer: <https://biology-forums.com/index.php?topic=642981>

Question 181

You wish to borrow \$2,000 to be repaid in 12 monthly installments of \$170.30. The annual interest rate is

- A) 24%.
- B) 4%.
- C) .04%.
- D) 22%.

Answer: <https://biology-forums.com/index.php?topic=640811>

Question 182

Self-insurance would not provide adequate protection in which of the following circumstances?

- A) Unemployment insurance for a firm that rarely lays off employees.
- B) Damage to the company's own vehicles.
- C) Major ecological disasters resulting from oil spills.
- D) Revenue lost because of bad weather during the peak shopping season.

Answer: <https://biology-forums.com/index.php?topic=642868>

Question 183

The 1 year interest rate in the U.S. is 2%. The spot exchange rate for yen is 113.25 to the dollar. The 6 months forward rate is 112.96 to the dollar. These prices indicate that the 6 month risk-free rate in Japan is

- A) 1.74%.
- B) 2.26%.
- C) 4.31%.
- D) 1.99%.

Answer: <https://biology-forums.com/index.php?topic=642723>

Question 184

Tantasqua Paper Products is composed of 3 divisions: industrial paper products, commercial paper products, and a forestry division which grows trees for wood pulp used in the paper-making process. Each of these divisions takes on a large number of projects with differing risk characteristics. Tantasqua now uses a single discount rate based on the company's WACC to evaluate all capital budgeting proposals. Discuss the advantages and disadvantages of switching to an approach based on separate discount rates for each division or even the risk level of each project.

Answer: <https://biology-forums.com/index.php?topic=641808>

Question 185

Water Works, Inc. has a current ratio of 1.33, current liabilities of \$540,000, and inventory of \$400,000. What is Water Works, Inc.'s quick ratio?

- A) 1.11
- B) 0.86
- C) 1.90
- D) 0.59

Answer: <https://biology-forums.com/index.php?topic=640625>

Question 186

Banner's projected discretionary financing needed for 2018 is

- A) \$420,000.
- B) \$440,000.
- C) \$360,000.
- D) \$370,000.

Answer: <https://biology-forums.com/index.php?topic=642212>

Question 187

The popularity of options can be explained by the use of options

- A) the amount of leverage they provide.
- B) as a type of financial insurance.
- C) to expand the set of possible investment alternatives available.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642991>

Question 188

Which of the following is an advantage of using commercial paper for short-term credit?

- A) The interest rate is usually lower than for equivalent bank loans.
- B) A readily available source of credit for most firms
- C) It is a type of free credit
- D) It can be issued for very small amounts

Answer: <https://biology-forums.com/index.php?topic=642426>

Question 189

Farar, Inc. projects operating income of \$4 million next year. The firm's income tax rate is 40%. Farar presently has 750,000 shares of common stock, no preferred stock, and no debt. The firm is considering the issuance of \$6 million of 10% bonds to finance a new product that is not expected to generate an increase in income for two years. If Farar issues the bonds this year, what will projected EPS be next year?

- A) \$1.53
- B) \$1.98
- C) \$2.72
- D) \$4.53

Answer: <https://biology-forums.com/index.php?topic=641920>

Question 190

Which of the following statements about zero coupon bonds is FALSE?

- A) When the bonds mature, the issuing firm is faced with a small cash outflow relative to the cash inflow the firm receives when the bonds are initially issued.
- B) Zero coupon bonds have lower interest rate risk than bonds with high coupons.
- C) Zero coupon bonds are an extremely popular way for corporations to borrow money.
- D) Most zero coupon bonds in the U.S. are government issues.

Answer: <https://biology-forums.com/index.php?topic=641200>

Question 191

Which of the following statements is most plausible?

- A) Increases in stock price associated with a dividend increase are likely due to information conveyed by the increase.
- B) Increases in stock price associated with a dividend increase are likely due to changes in the company's capital structure.
- C) Increases in stock price associated with a dividend increase are likely due to investors' preference for dividends over capital gains.
- D) Increases in stock price associated with a dividend increase are likely due to the favorable tax treatment of dividends over capital gains.

Answer: <https://biology-forums.com/index.php?topic=642053>

Question 192

If managers do not pursue the goal of maximizing shareholder wealth

- A) they concentrate on more important matters like growing market share.
- B) they can focus more on social responsibilities.
- C) they are likely to lose their jobs.
- D) they can focus more on long-term profitability.

Answer: <https://biology-forums.com/index.php?topic=640414>

Question 193

For a company with unpredictable investment needs and opportunities, the best way to distribute cash to shareholders would be

- A) a residual dividend policy.
- B) to repurchase company stock.
- C) to issue preferred rather than common stock.
- D) to pay dividends on an irregular basis.

Answer: <https://biology-forums.com/index.php?topic=642136>

Question 194

Suppose International Trading Enterprises purchased 25,000 kilograms of Belgian chocolate for a price of 100,000 euros. If the current exchange rate is 0.95 euro to the U.S. dollar, what is the purchase price of the chocolate in dollars?

- A) \$57,895
- B) \$26,316
- C) \$95,000
- D) \$105,263

Answer: <https://biology-forums.com/index.php?topic=642571>

Question 195

The owner of a convenience store is considering adding a take-out sandwich section to her offerings. The new activity will occupy 25% of the space and account for 30% of total revenues. Property insurance on the building is \$9,000 per year and will not change because of the new activity. How much of the insurance premium should be allocated to the new product line?

- A) \$2,700
- B) \$2,475
- C) \$2,250
- D) \$0.00

Answer: <https://biology-forums.com/index.php?topic=641464>

Question 196

Cash budgets usually include details such as the timing of materials purchases, interest payments, and the like.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642167>

Question 197

Which of the following is NOT an advantage of futures contracts?

- A) They are inexpensive compared to customized forward contracts.
- B) They trade on exchanges rather than over the counter.
- C) Features such as contract size and expiration date are standardized.
- D) The size and commodity can always be perfectly tailored to form a perfect hedge.

Answer: <https://biology-forums.com/index.php?topic=642935>

Question 198

The stock valuation model $D1/(Rc - g)$ requires $Rc > G$.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641269>

Question 199

Maximus, Inc. is planning to borrow \$2 million for 9 months at a discounted interest rate of 4.5%. What is the annual percentage rate on the loan?

Answer: <https://biology-forums.com/index.php?topic=642511>

Question 200

The principal savers in the financial markets are

- A) businesses.
- B) banks.
- C) individuals.
- D) governments.

Answer: <https://biology-forums.com/index.php?topic=640457>

Question 201

A stock dividend will cause changes in the dollar value of which of the below capital accounts?

- A) Common stock
- B) Additional paid-in capital
- C) Retained earnings
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641949>

Question 202

An investor will invest \$1,000 now and expect to receive \$10 for each of the next 10 years plus \$1,000 at the end of the 10th year. Her cash flow at time period 0 is

- A) \$1,000.
- B) -\$1,000.
- C) \$-990.
- D) \$1,010.

Answer: <https://biology-forums.com/index.php?topic=640721>

Question 203

An issue of common stock currently sells for \$40.00 per share, has an expected dividend to be paid at the end of the year of \$2.00 per share, and has an expected growth rate to infinity of 5% per year. The expected rate of return on this security is

- A) 5%.
- B) 10.25%.
- C) 13.11%.
- D) 10%.

Answer: <https://biology-forums.com/index.php?topic=641246>

Question 204

Bell Weather, Inc. has a beta of 1.25. The return on the market portfolio is 12.5%, and the risk-free rate is 5%. According to CAPM, what is the required return on this stock?

- A) 20.62%
- B) 9.37%
- C) 14.38%
- D) 15.62%

Answer: <https://biology-forums.com/index.php?topic=641075>

Question 205

For the risk-return principle implies that the more risky a given course of action, the higher the expected return must be.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640448>

Question 206

You just purchased a parcel of land for \$10,000. If you expect a 12% annual rate of return on your investment, how much will you sell the land for in 10 years?

- A) \$25,000
- B) \$31,060
- C) \$38,720
- D) \$34,310

Answer: <https://biology-forums.com/index.php?topic=640741>

Question 207

One characteristic of an annuity is that an equal sum of money is deposited or withdrawn each period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640872>

Question 208

To evaluate and compare investment proposals, we must adjust all cash flows to a common date.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640920>

Question 209

The enterprise value of the firm is defined as

- A) (Market Value of Interest Bearing Debt-Excess Cash) + Market Value of Equity.
- B) (Book Value of Interest Bearing Debt-Excess Cash) + Market Value of Equity.
- C) (Book Value of Interest Bearing Debt-Excess Cash) + Book Value of Equity.
- D) Market Value of Interest Bearing Debt + Market Value of Equity.

Answer: <https://biology-forums.com/index.php?topic=641829>

Question 210

In theory using the same discount rate to evaluate all projects can lead to

- A) rejection of low risk projects that should be accepted.
- B) acceptance of high risk projects that should be rejected.
- C) control of efforts by employees with a vested interest in a project to manipulate the discount rate.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641795>

Question 211

Which of the following individual situations would best justify the cost of a life insurance policy?

- A) Single income with young children.
- B) Single income, no dependents.
- C) Dual income, grown children.
- D) Married couple, each had substantial income before retirement.

Answer: <https://biology-forums.com/index.php?topic=642874>

Question 212

A banker's acceptance is a draft drawn on a specific bank by an exporter in order to obtain payment for goods that he has shipped to a customer who maintains an account with that specific bank.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642546>

Question 213

When using simulation to analyze a large capital project, the decision rule is

- A) There is no clear cut decision rule, but the probabilities will produce a more informed decision.
- B) Accept the project if the probability of a positive NPV is greater than 50%.
- C) Reject the project if the probability of a negative NPV is greater than 5%
- D) Reject the project if the probability of a negative NPV is greater than 16%

Answer: <https://biology-forums.com/index.php?topic=641612>

Question 214

The calculation of differential cash flows over a project's life should include which of the following?

- A) Labor and material savings
- B) Additional revenues attributable to the project
- C) Investment in net working capital
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641458>

Question 215

Young Enterprises is financed entirely with 3 million shares of common stock selling for \$20 a share. Capital of \$4 million is needed for this year's capital budget. Additional funds can be raised with new stock (ignore dilution) or with 13% 10-year bonds. Young's tax rate is 40%.

- a. Calculate the financing plan's EBIT indifference point.
- b. Does the "indifference point" calculated in question (a) above truly represent a point where stockholders are indifferent between stock and debt financing? Explain your answer.

Answer: <https://biology-forums.com/index.php?topic=641938>

Question 216

A company which foregoes the discount when credit terms are 4/15 net 70 is essentially borrowing money from his supplier for an additional

- A) 40 days.
- B) 55 days.
- C) 70 days.
- D) 85 days.

Answer: <https://biology-forums.com/index.php?topic=642430>

Question 217

Stock valuation is more precise than bond valuation as stock cash flows are more certain.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641268>

Question 218

After the U.S. dollar, the most widely traded currency is

- A) the U.K. pound
- B) the euro.
- C) the Swiss franc.
- D) the Japanese yen.

Answer: <https://biology-forums.com/index.php?topic=642582>

Question 219

Strategic planning encompasses all of the following EXCEPT:

- A) a cash budget.
- B) a description of the firm's core competencies and activities.
- C) a definition of the firm's customers.
- D) a description of the firm's competitors and its own competitive strengths and weaknesses.

Answer: <https://biology-forums.com/index.php?topic=642158>

Question 220

A purchaser of commodities who is completely hedged with forward contracts will profit if prices fall before the purchase is concluded.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642923>

Question 221

The problem with the residual dividend policy ratio is

- A) investors might come to expect a specified amount.
- B) the dollar amount of the dividend fluctuates from year to year.
- C) management is reluctant to cut the dividend even if there are low profits in a year.
- D) all of the above are possible problems.

Answer: <https://biology-forums.com/index.php?topic=642127>

Question 222

The portfolio standard deviation will always be less than the standard deviation of any asset in the portfolio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641003>

Question 223

Determine the rate of return on a \$25 common stock that pays a dividend of \$2.50 in year 1 and grows at a rate of 5%.

Answer: <https://biology-forums.com/index.php?topic=641274>

Question 224

Briefly describe the 5 steps in performing a simulation analysis.

Answer: <https://biology-forums.com/index.php?topic=641623>

Question 225

What is the NPV of a \$45,000 project that is expected to have an after-tax cash flow of \$14,000 for the first two years, \$10,000 for the next two years, and \$8,000 for the fifth year? Use a discount rate of 8%. Would you accept or reject the investment?

Answer: <https://biology-forums.com/index.php?topic=641377>

Question 226

Bowman-Daniela-Mainland is a major producer and exporter of agricultural commodities. It has sold soy beans for future delivery to a Japanese firm and expects to receive payments of 400 million yen in 6 months and another 400 million yen in 1 year. To lock in the exchange rates on these two payments, BDM arranges forward contracts with an investment banker to sell 400 million yen at \$0.0110 in 6 months and \$0.0115 in 1 year. What will BDM's cash flow be in dollars from each of these transactions? How has it fixed its revenue in dollars from the soy bean sales?

Answer: <https://biology-forums.com/index.php?topic=642929>

Question 227

Companies chosen for benchmarks should be of similar size and in the same or a similar industry.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640707>

Question 228

A retirement plan guarantees to pay you or your estate a fixed amount for 20 years. At the time of retirement, you will have \$31,360 to your credit in the plan. The plan anticipates earning 8% interest annually over the period you receive benefits. How much will your annual benefits be, assuming the first payment occurs one year from your retirement date?

- A) \$682
- B) \$6,272
- C) \$2,000
- D) \$3,194

Answer: <https://biology-forums.com/index.php?topic=640840>

Question 229

With respect to working capital policy, firms most often employ

- A) a cautious approach which finances short-term assets with long-term financing.
- B) the principle of self-liquidating debt.
- C) an aggressive approach which finances long-term assets with short-term financing.
- D) the principle of liquidity optimization.

Answer: <https://biology-forums.com/index.php?topic=642326>

Question 230

If current market interest rates fall, what will happen to the value of outstanding bonds?

- A) It will rise.
- B) It will fall.
- C) It will remain unchanged.
- D) There is no connection between current market interest rates and the value of outstanding bonds.

Answer: <https://biology-forums.com/index.php?topic=641178>

Question 231

A company converts space to use as a manufacturing facility. Previously it was rented to another company as a warehouse. This is an example of a sunk cost.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641474>

Question 232

Which of the following is a consequence of transferring risk to an insurance company?

- A) An increase in stock value because risk has been reduced.
- B) A guaranteed small loss in exchange for protection against large losses.
- C) Higher rates of return because the firm is now free to pursue high-risk projects.
- D) Protection against losses at no significant cost to the firm.

Answer: <https://biology-forums.com/index.php?topic=642866>

Question 233

The firm's optimal capital structure is the mix of financing sources that

- A) minimizes the risk of financial distress.
- B) maximizes after-tax earnings.
- C) maximizes the total value of the firm's debt and equity.
- D) maximizes favorable leverage.

Answer: <https://biology-forums.com/index.php?topic=641826>

Question 234

Which of the following cash flows should not be included as incremental costs or revenues when evaluating capital projects?

- A) A new security system will reduce shoplifting losses by \$50,000 per year.
- B) Thirty percent of the sales of a new product will result from customers switching from the previous version of the product.

C) Interest on construction loans will increase interest expense by \$225,000 per year.
D) The project will occupy space which is currently being rented to another business for \$3,000 per month.
Answer: <https://biology-forums.com/index.php?topic=641457>

Question 235

Which of the following cash flows should be included as incremental costs when evaluating capital projects?
A) Investment in working capital that is directly related to a project
B) Expenses that are incurred in order to modify a firm's production facility in order to invest in a project
C) Opportunity costs that are directly related to a project
D) All of the above
Answer: <https://biology-forums.com/index.php?topic=641450>

Question 236

The interplay between interest rate differentials and exchange rates such that both adjust until the foreign exchange market and the money market reach equilibrium is called the
A) purchasing power parity theory.
B) balance of payments quantum theory.
C) interest rate parity theory.
D) arbitrage markets theory.
Answer: <https://biology-forums.com/index.php?topic=642717>

Question 237

Metals Corp. has \$2,575,000 of debt, \$550,000 of preferred stock, and \$18,125,000 of common equity. Metals Corp.'s after-tax cost of debt is 5.25%, preferred stock has a cost of 6.35%, and newly issued common stock has a cost of 14.05%. What is Metals Corp.'s weighted average cost of capital?
A) 12.78%
B) 10.84%
C) 8.32%
D) 6.56%
Answer: <https://biology-forums.com/index.php?topic=641777>

Question 238

The first amount on a timeline represent the present value of all the future amounts at a given interest rate.
True / False?
Answer: <https://biology-forums.com/index.php?topic=640734>

Question 239

Many firms today continue to use the payback method but employ the NPV or IRR methods as secondary decision methods of control for risk.
True / False?
Answer: <https://biology-forums.com/index.php?topic=641439>

Question 240

If you want to have \$1,700 in seven years, how much money must you put in a savings account today? Assume that the savings account pays 6% and it is compounded quarterly (round to the nearest \$10).
A) \$1,120
B) \$1,130
C) \$1,110
D) \$1,140
Answer: <https://biology-forums.com/index.php?topic=640793>

Question 241

Snype, Inc. has an accounts receivable turnover ratio of 7.3. Stork Company has an accounts receivable turnover ratio of 5.0. Which of the following statements is correct?
A) Snype's average collection period is less than Stork's.
B) Stork's average collection period is less than Snype's.
C) Snype has a lower accounts receivable account on average than does Stork Company.
D) Stork Company has (on average) a lower accounts receivable account than does Snype.
Answer: <https://biology-forums.com/index.php?topic=640631>

Question 242

A firm's excess cash can be readily determined from its balance sheet.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641848>

Question 243

What elements determine what the yield to maturity will be for a bond?

Answer: <https://biology-forums.com/index.php?topic=641225>

Question 244

When assets are positively correlated, they tend to rise or fall together.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641004>

Question 245

The sole proprietorship is the same as the individual for liability purposes.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640394>

Question 246

Dudster Manufacturing has 2 options for installing legally required safety equipment. Option Ex has an initial cost of \$25,000 and annual operating costs over 3 years of \$5,000, \$5,250, \$5,600. Option WYE has an initial cost of \$40,000 and annual operating costs of \$4,000, \$4,200, \$4,450, \$4,750, \$5,100. Whether Dudster chooses Ex or Wye, the equipment is always needed and must be replaced at the end of its useful life. Which choice is least expensive over the long run? Use a discount rate of 9%.

Answer: <https://biology-forums.com/index.php?topic=641376>

Question 247

Which of the following statements is FALSE?

- A) A dollar received one year from now will be worth more than a dollar received today.
- B) A dollar received one year from now will be worth more than a dollar received two years from now.
- C) Compounding essentially means earning interest on interest on an initial balance.
- D) Perpetuities pay an equal payment forever.

Answer: <https://biology-forums.com/index.php?topic=640720>

Question 248

The current ratio and the acid test ratio are both measures of financial leverage.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640686>

Question 249

If revenues can be forecast to fall within a tight range of outcomes, then the ratio of cash and near-cash to total assets will be greater for the firm than if the prospective cash inflows might be expected to vary over a wide range.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642551>

Question 250

The cost of preferred stock is equal to

- A) the preferred stock dividend divided by market price.
- B) the preferred stock dividend divided by its par value.
- C) $(1 - \text{tax rate})$ times the preferred stock dividend divided by net price.
- D) the preferred stock dividend divided by the net market price.

Answer: <https://biology-forums.com/index.php?topic=641717>

Question 251

Equipment should be replaced whenever replacement results in a positive NPV.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641369>

Question 252

Preferred stock is similar to common stock in that

- A) it has no fixed maturity date.
- B) the nonpayment of dividends can bring on bankruptcy.
- C) dividends are limited in amount.
- D) both carry voting rights.

Answer: <https://biology-forums.com/index.php?topic=641316>

Question 253

Stephen's grandmother deposited \$100 in an investment account for him when he was born, 25 years ago. The account is now worth \$1,500. What was the average rate of return on the account? Which of the following is a correct way to solve this problem using EXCEL?

- A) =PV(25,i,-100,1500)
- B) =rate(25,0,100,1500)
- C) =rate(25,0,-100,1500)
- D) =rate(0,-100,1500,25)

Answer: <https://biology-forums.com/index.php?topic=640788>

Question 254

Which of the following is NOT a current asset?

- A) Accounts payable
- B) Cash
- C) Accounts receivable
- D) Inventory

Answer: <https://biology-forums.com/index.php?topic=640560>

Question 255

Work by the behavioral economists Robert Shiller and Daniel Kahnemann strongly supports the weak and semi-strong forms of the Efficient Market Hypothesis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640985>

Question 256

Bank Two extends a \$3 million line of credit to Capital Corp. The stated rate of interest is 9.5%. Bank Two requires Capital to maintain compensating balances equal to 10% of the amount of the line. Assuming that Capital would not normally carry any deposits at the bank, what is the effective annual rate of interest on the loan?

- A) 9.5%
- B) 10.6%
- C) 11.6%
- D) 12.3%

Answer: <https://biology-forums.com/index.php?topic=642438>

Question 257

Commercial paper offers the borrower the same flexibility that exists when bank credit is used to meet financing needs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642501>

Question 258

Bay State Tubing has a large manufacturing facility in Central America is particularly concerned that a tariff of unknown size will be imposed on goods reimported from that region. The type of risk analysis that accounts for various levels of tariff is

- A) sensitivity analysis.
- B) political risk analysis.
- C) scenario analysis.
- D) exchange rate analysis.

Answer: <https://biology-forums.com/index.php?topic=641599>

Question 259

Compare management's motives for preferring either stock repurchases or cash dividends.

Answer: <https://biology-forums.com/index.php?topic=642153>

Question 260

Common stockholders are essentially

- A) creditors of the firm.
- B) managers of the firm.
- C) owners of the firm.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641229>

Question 261

Jen and Barry's Ice Cream needs \$20 million in new capital to expand its production facilities. It will use 40% debt and 60% equity. The company's after-tax cost of debt is 5% and the cost of equity is 12.5%. Flotation costs will be 3% for debt and 9% for equity. What is the total amount of capital that will need to be raised to finance the expansion project?

- A) \$22,386,000
- B) \$20,000,000
- C) \$21,200,000
- D) \$21,413,276

Answer: <https://biology-forums.com/index.php?topic=641811>

Question 262

The matching principle requires that

- A) expenses be recognized in the period when cash payments occurred.
- B) allows considerable latitude in the timing of expense recognition.
- C) expenses be recognized in the same period as when the firm became liable for payment.
- D) all expenses be allocated to some specific source of revenue.

Answer: <https://biology-forums.com/index.php?topic=640515>

Question 263

Managers are prohibited from using dividend changes and repurchase offers to communicate information concerning their future expectations concerning the firm's cash flows.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642148>

Question 264

Your investment goal is to have \$3,000,000 in 40 years for retirement. You decide to invest in a mutual fund today that pays 12% per year compounded monthly. How much must you invest at the end of each month to meet your investment goal? Round to the nearest \$1.

- A) \$245
- B) \$255
- C) \$285
- D) \$305
- E) \$315

Answer: <https://biology-forums.com/index.php?topic=640850>

Question 265

Which of the following would be considered an issue that is related to the management of working capital?

- A) How much inventory should the firm maintain?
- B) How should a firm finance its current assets?
- C) To whom should the firm grant trade credit?
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642281>

Question 266

Trade credit is an example of which of the following sources of financing?

- A) Spontaneous
- B) Temporary
- C) Permanent
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=642349>

Question 267

An exceptionally high growth rate in sales will typically

- A) initially increase the firm's need for discretionary financing.

- B) generate enough cash flow to cover asset expansion.
- C) allow the firm to increase its dividend in anticipation of higher cash flows.
- D) allow the firm to finance expansion with spontaneous sources of financing.

Answer: <https://biology-forums.com/index.php?topic=642197>

Question 268

The present value of \$400 to be received at the end of 10 years, if the discount rate is 5%, is

- A) \$400.00.
- B) \$248.40.
- C) \$313.60.
- D) \$245.60.

Answer: <https://biology-forums.com/index.php?topic=640789>

Question 269

If the market price of a bond increases, then

- A) the yield to maturity decreases.
- B) the coupon rate increases.
- C) the yield to maturity increases.
- D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=641176>

Question 270

When a firm makes the decision to pay dividends, it also makes the decision not to reinvest the cash in the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642107>

Question 271

Five years ago, Mr. Martinez purchased 1000 shares of JPM stock at \$50 per share. If Mr. Martinez ' tax rate is 25%, would he prefer that the company pay a \$5.00 per share dividend or offer to repurchase 100 shares at \$50 per share?

- A) Pay the dividend because he would have no transaction costs.
- B) It would make no difference because he would receive \$5,000 either way.
- C) Repurchase the stock because he would owe no taxes.
- D) It would make no difference because the tax rate on dividends is the same as the tax rate on capital gains.

Answer: <https://biology-forums.com/index.php?topic=641969>

Question 272

Gross plant and equipment minus accumulated depreciation represents the fair market value of a company's fixed assets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640577>

Question 273

Assume that a buyer of Italian wine saw the following quotes: spot rate of .9505 euros to the U.S. dollar; 30-day forward rate of .9497 euro to the U.S. dollar; 90-day forward rate of .9482 euros to the U.S. dollar. What does this information imply?

- A) The forward euro is selling at a premium as compared with the spot euro.
- B) The dollar is expected to maintain the same value in the near future relative to the euro.
- C) The forward euro is selling at a discount as compared with the spot euro.
- D) None of the above.

Answer: <https://biology-forums.com/index.php?topic=642609>

Question 274

Which of the following costs is NOT covered in an accounting break-even analysis?

- A) Shareholders expected rate of return
- B) Variable production costs
- C) Interest expense
- D) Depreciation expense

Answer: <https://biology-forums.com/index.php?topic=641626>

Question 275

Tantasqua Paper Products is composed of 3 divisions: industrial paper products, commercial paper products, and a forestry division which grows trees

for wood pulp used in the paper-making process. Each of these divisions takes on a large number of projects with differing risk characteristics. Tantasqua now uses a single discount rate based on the company's WACC to evaluate all capital budgeting proposals. Discuss the advantages and disadvantages of this approach.

Answer: <https://biology-forums.com/index.php?topic=641807>

Question 276

Capital structure refers to the financing of long-term investments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640373>

Question 277

Sunk costs are a type of incremental cash flow that should be included in all capital-budgeting decisions.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641466>

Question 278

Which of the following is a reason why risk analysis is an important part of capital budgeting?

- A) The people who propose projects have no vested interest in whether or not they are accepted.
- B) Marketing managers are rarely excessively optimistic.
- C) Project cash flows can be highly uncertain.
- D) Financial analysts are rarely excessively pessimistic.

Answer: <https://biology-forums.com/index.php?topic=641568>

Question 279

Which of the following variables is NOT part of the Black-Scholes option pricing model?

- A) The expected rate of return on the market
- B) The current stock price
- C) The strike price or exercise price
- D) The time remaining before the expiration date

Answer: <https://biology-forums.com/index.php?topic=643041>

Question 280

Briefly discuss how non-annual compounding (more than one compounding period per year) is preferable to annual compounding if you are an investor.

Answer: <https://biology-forums.com/index.php?topic=640770>

Question 281

A narrow spread indicates efficiency in the spot exchange market.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642694>

Question 282

A general rule for interpreting financial ratios is: "the higher the better."

True / False?

Answer: <https://biology-forums.com/index.php?topic=640688>

Question 283

List at least four typical value drivers that could seriously impact the outcome of a project.

Answer: <https://biology-forums.com/index.php?topic=641622>

Question 284

Project H requires an initial investment of \$100,000 and produces annual cash flows of \$45,000 per year for each of the next 3 years. Project T also requires an initial investment of \$100,000 and produces cash flows of \$30,000 in year 1, \$40,000 in year 2, and \$70,000 in year 3. If the discount rate increases from 10% to 16%

- A) Project T should be chosen.
- B) Both projects should be rejected.
- C) H and T are equally attractive.
- D) The project rankings will change.

Answer: <https://biology-forums.com/index.php?topic=641351>

Question 285

During the period 1995 to 2015, gold has underperformed both REITS and Equities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640963>

Question 286

Which of the following is most likely to increase EPS?

- A) a 6 for 5 stock split
- B) a 20% stock dividend
- C) The company repurchases 20% of outstanding shares.
- D) a 20% cash dividend

Answer: <https://biology-forums.com/index.php?topic=642029>

Question 287

Firms that wish to minimize risk will attempt to

- A) minimize the standard deviation of expected cash flows.
- B) maximize the standard deviation of expected cash flows.
- C) maximize expected cash flows.
- D) balance expected cash flows with the standard deviation of expected cash flows.

Answer: <https://biology-forums.com/index.php?topic=642836>

Question 288

The practice of shifting income from good years to poor years in order to show a record of steady growth is

- A) is known as earnings management and is considered unethical.
- B) is highly recommended but not required by GAAP.
- C) is a basic requirement of accrual accounting.
- D) is impossible if Generally Accepted Accounting Principles are followed.

Answer: <https://biology-forums.com/index.php?topic=640539>

Question 289

If you put \$700 in a savings account with a 10% nominal rate of interest compounded monthly, what will the investment be worth in 21 months (round to the nearest dollar)?

- A) \$827
- B) \$833
- C) \$828
- D) \$1,176

Answer: <https://biology-forums.com/index.php?topic=640743>

Question 290

What is being traded off in tradeoff theory?

- A) tax savings from interest and financial distress costs.
- B) cost of equity and cost of debt.
- C) dividend payments and interest payments.
- D) EBIT and EPS.

Answer: <https://biology-forums.com/index.php?topic=641867>

Question 291

The debt ratio is usually computed using book values for both debt and equity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641846>

Question 292

Forward rates, like spot rates, are quoted in both direct and indirect form.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642698>

Question 293

Jefferson Corporation is considering an expansion project. The necessary equipment could be purchased for \$15 million and shipping and installation

costs are another \$500,000. The project will also require an initial \$2 million investment in net working capital. The company's tax rate is 40%. What is the project's initial investment outlay (in millions)?

- A) \$15.0
- B) \$15.5
- C) \$17.0
- D) \$17.5

Answer: <https://biology-forums.com/index.php?topic=641512>

Question 294

Hefty stock has a beta of 1.2. If the risk-free rate is 7% and the market risk premium is 6.5%, what is the required rate of return on Hefty?

- A) 14.8%
- B) 14.4%
- C) 12.4%
- D) 13.5%

Answer: <https://biology-forums.com/index.php?topic=641079>

Question 295

Recently you borrowed money for a new car. The loan amount is \$15,000 to be paid back in equal annual payments which begin today, and will continue to be payable at the beginning of each year for a total of five years. Interest on the loan is 8%. What is the amount of the loan payment?

- A) \$3,756.85
- B) \$4,200.00
- C) \$3,478.31
- D) \$3,000.00

Answer: <https://biology-forums.com/index.php?topic=640858>

Question 296

How can a gold futures contract be used as a hedge against a potentially dramatic decrease in the price of the gold needed as an input into the production of computer microprocessors?

- A) The computer company should sell gold futures contracts.
- B) The computer company should sell more gold futures contracts than it should buy.
- C) This is a standard business situation, which would be favorable if it were to happen, so no hedge is needed.
- D) The computer company should lower its finished product prices now in anticipation of the decrease in the price of gold inputs.

Answer: <https://biology-forums.com/index.php?topic=642971>

Question 297

Which of the following is an advantage of trade credit?

- A) Trade credit is conveniently obtained as a normal part of the firm's operations.
- B) No formal agreements are generally involved in extending credit.
- C) The amount of credit extended expands and contracts with the needs of the firm.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=642464>

Question 298

When using a financial calculator, which of the following is a correct way to find the future value of \$200 deposited today in an account for four years paying annual interest of 2% compounded quarterly?

- A) $N=16, i=.005, PV=200, PMT=0$, solve for FV
- B) $N=4, i=.5, PV=200, PMT=0$, solve for FV
- C) $N=16, i=.5, PV=-200, PMT=0$, solve for FV
- D) $N=16, i=.03, FV=-200, PMT=0$, solve for PV

Answer: <https://biology-forums.com/index.php?topic=640759>

Question 299

A company that earns a rate of return on its investments lower than the interest rate on its debt is said to have

- A) unfavorable financial leverage.
- B) a sub-optimal capital structure.
- C) favorable financial leverage.
- D) negative financial leverage.

Answer: <https://biology-forums.com/index.php?topic=641840>

Question 300

If the new machine is purchased, depreciation expense will increase or decrease by

- A) increase \$8,000.
- B) increase \$6,900.
- C) Increase \$6,300.
- D) decrease \$5,000.

Answer: <https://biology-forums.com/index.php?topic=641553>

Question 301

The retail analyst at Morgan-Sachs values stock of the GAP at \$38.00 per share. They are using the average industry "forward" P/E ratio of 17. Their forecasted earnings per share for next year is

- A) \$0.54.
- B) \$1.50.
- C) \$2.24
- D) There is not enough information calculate earnings per share.

Answer: <https://biology-forums.com/index.php?topic=641281>

Question 302

You are evaluating the purchase of Cool Toys, Inc. common stock that just paid a dividend of \$1.80. You expect the dividend to grow at a rate of 12%, indefinitely. You estimate that a required rate of return of 17.5% will be adequate compensation for this investment. Assuming that your analysis is correct, what is the most that you would be willing to pay for the common stock if you were to purchase it today? Round to the nearest \$.01.

- A) \$36.65
- B) \$91.23
- C) \$51.55
- D) \$74.82

Answer: <https://biology-forums.com/index.php?topic=641240>

Question 303

The MAX Corporation is planning a \$4 million expansion this year. The expansion can be financed by issuing either common stock or bonds. The new common stock can be sold for \$60 per share. The bonds can be issued with a 12% coupon rate. The firm's existing shares of preferred stock pay dividends of \$2.00 per share. The company's combined state and federal corporate income tax rate is 46%. The company's balance sheet prior to expansion is as follows:

MAX Corporation
Current assets \$ 2,000,000
Fixed assets 8,000,000
Total assets \$10,000,000
Current liabilities \$ 1,500,000
Bonds:
(8%, \$1,000 par value) 1,000,000
(10%, \$1,000 par value) 4,000,000
Preferred stock:
(\$100 par value) 500,000
Common stock:
(\$2 par value) 700,000
Retained earnings 2,300,000
Total liabilities and equity \$10,000,000

- a. Calculate the indifference level of EBIT between the two plans.
- b. If EBIT is expected to be \$3 million, which plan will result in higher EPS?

Answer: <https://biology-forums.com/index.php?topic=641939>

Question 304

An emerging market is

- A) a market for small, but rapidly growing companies.
- B) market for companies coming out from bankruptcy proceedings.
- C) market for promising, but untested technologies
- D) a market located in an economy with low to middle per capita income.

Answer: <https://biology-forums.com/index.php?topic=640954>

Question 305

Quineboag Textiles In. has calculated it's degree of operating leverage at 3.00. If Quineboag can increase sales from \$5,000,000 to \$5,250,000, operating income should increase from \$500,000 to

- A) \$515,000

- B) \$650,000
- C) \$1,500,000
- D) \$575,000

Answer: <https://biology-forums.com/index.php?topic=641649>

Question 306

AA & Co. has a beta of .656. If the expected market return is 13.2% and the risk-free rate is 5.7%, what is the appropriate required return of AA & Co. using the CAPM model?

Answer: <https://biology-forums.com/index.php?topic=641099>

Question 307

Long-term government bonds are not without maturity risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641220>

Question 308

Artie's Soccer Ball Company is considering a project with the following cash flows:

Initial outlay = \$750,000

Incremental after-tax cash flows from operations Years 1-4 = \$250,000 per year

Compute the NPV of this project if the company's discount rate is 12%.

- A) \$9,337
- B) \$7,758
- C) \$4,337
- D) \$2,534

Answer: <https://biology-forums.com/index.php?topic=641357>

Question 309

Because money has a time value investors should prefer that dividends be paid sooner rather than later. Agree or disagree. Explain your answer with a numerical example.

Answer: <https://biology-forums.com/index.php?topic=642114>

Question 310

In a general partnership, each partner is liable for the partnership's obligations only up to a percentage of the obligation equal to that partner's percentage of ownership of the partnership.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640406>

Question 311

Cornucopia's liabilities and equity are shown below:

Accounts Payable \$500,000

Accrued Expenses 250,000

Short-term Note at 5% 300,000

Long-Term Debt 1,250,000

Common Equity, Book Value 2,500,000

Common Equity, Market Value 6,000,000

Cornucopia's debt ratio is

- A) .48.
- B) .32.
- C) .21.
- D) .30.

Answer: <https://biology-forums.com/index.php?topic=641833>

Question 312

You have invested in a project that has the following payoff schedule:

Probability of

Payoff Occurrence

- \$40 .15
- \$50 .20
- \$60 .30
- \$70 .30

\$80 .05

What is the expected value of the investment's payoff? (Round to the nearest \$1.)

- A) \$60
- B) \$65
- C) \$58
- D) \$70

Answer: <https://biology-forums.com/index.php?topic=640934>

Question 313

Rewarding executives for increasing quarterly earnings will motivate them to act in the long-term best interests of shareholders.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640452>

Question 314

Investors choose to invest in higher risk investments because these investments offer higher

- A) expected returns.
- B) inflation.
- C) actual returns.
- D) future consumption.

Answer: <https://biology-forums.com/index.php?topic=640441>

Question 315

The preferred stock of Wells Co. sells for \$15.30 and pays a \$1.75 dividend. What is the cost of capital for preferred stock?

Answer: <https://biology-forums.com/index.php?topic=641770>

Question 316

Becker.com has an inventory turnover ratio of 52, an accounts receivable balance of \$365,000, average daily credit sales of \$36,500, accounts payable of \$182,500 and cost of goods sold of \$7,993,500. What is Becker's cash conversion cycle to the nearest day?

- A) 17 days
- B) 9 days
- C) 27 days
- D) -27 days

Answer: <https://biology-forums.com/index.php?topic=642403>

Question 317

The proportion of debt in this firm's capital structure is

- A) 40%.
- B) 50%.
- C) 60%.
- D) 70%.

Answer: <https://biology-forums.com/index.php?topic=641748>

Question 318

As a part of your savings plan at work, you have been depositing \$250 per quarter in a savings account earning 8% interest compounded quarterly for the last 10 years. You will retire in 15 years and want to increase your contribution each year from \$1,000 to \$2,000 per year, by increasing your contribution every four months from \$250 to \$500. Additionally, you have just inherited \$10,000, which you plan to invest now to earn interest at 12% compounded annually for the next 15 years. How much money will you have in savings when you retire 15 years from now?

- A) \$126,862
- B) \$73,012
- C) \$161,307
- D) \$194,415

Answer: <https://biology-forums.com/index.php?topic=640913>

Question 319

In reality, anticipated cash flows are only estimates and are thus uncertain.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641576>

Question 320

When using a financial calculator, which of the following is a correct way to find the future value of \$200 deposited today in an account for four years paying annual interest of 2% compounded quarterly?

- A) $N=16$, $i=.005$, $PV=-200$, $PMT=0$, solve for FV
- B) $N=4$, $i=.5$, $PV=\$200$, $PMT=0$, solve for FV
- C) $N=16$, $i=.5$, $PV=-200$, $PMT=0$, solve for FV
- D) $N=16$, $i=.03$, $FV=200$, $PMT=0$, solve for PV

Answer: <https://biology-forums.com/index.php?topic=640761>

Question 321

Assume that government and insurance providers pressure physicians to prescribe generic drugs whenever possible. For the producers of branded drugs, this change represents

- A) insurable risk.
- B) operational risk.
- C) demand risk.
- D) hedgeable risk.

Answer: <https://biology-forums.com/index.php?topic=642830>

Question 322

The use of short-term debt provides flexibility in financing since the firm is only paying interest when it is actually using the borrowed funds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642357>

Question 323

An attempt to profit by converting dollars to yen, yen to euros, and euros back to dollars would be an example of

- A) arbitrage.
- B) speculation.
- C) hedging.
- D) intervention.

Answer: <https://biology-forums.com/index.php?topic=642588>

Question 324

A marketing survey completed last year to determine a project's feasibility would be included as part of the project's initial cash outflow.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641534>

Question 325

It is not possible for a firm's after-tax cost of common equity to be lower than its after-tax cost of debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641761>

Question 326

Which of the following is least important to repurchase decisions of large American corporations?

- A) The previous level of dividends.
- B) the tax consequences to shareholders.
- C) Lack of good investment opportunities for cash retained in the firm.
- D) The company is holding more cash than it would like.

Answer: <https://biology-forums.com/index.php?topic=642132>

Question 327

The Sarbanes-Oxley was passed in

- A) 1933 to separate commercial banking from investment banking.
- B) 2002 after the ENRON bankruptcy exposed unethical behavior by the company's executives and accountants.
- C) 2008 after the collapse of the subprime mortgage market.
- D) 2010 to protect consumers from financial fraud.

Answer: <https://biology-forums.com/index.php?topic=640420>

Question 328

The higher the bond rating, the more default risk associated with the bond.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641161>

Question 329

The detailed legal agreement between a bond's issuer and its trustees is known as the

- A) collateral agreement.
- B) call provision.
- C) indenture.
- D) covenant.

Answer: <https://biology-forums.com/index.php?topic=641106>

Question 330

At the break-even NPV point

- A) the present value of operating cash flows equals the initial amount invested.
- B) The NPV of the project is equal to zero.
- C) the project's IRR is equal to the project's required rate of return.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=641641>

Question 331

One advantage of simulation is that it can differentiate between unsystematic and systematic risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641618>

Question 332

Errors resulting from a capital budgeting decision are not considered major since the consequences of such errors average out over the life of the investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641334>

Question 333

What is the NPV of a \$45,000 project that is expected to have an after-tax cash flow of \$14,000 for the first two years, \$10,000 for the next two years, and \$8,000 for the fifth year? Use a 10% discount rate. Would you accept the project?

Answer: <https://biology-forums.com/index.php?topic=641373>

Question 334

From the information below, select the optimal capital structure for Mountain High Corp.

- A) Debt = 40%; Equity = 60%; EPS = \$2.95; Stock price = \$26.50
- B) Debt = 50%; Equity = 50%; EPS = \$3.05; Stock price = \$28.90
- C) Debt = 60%; Equity = 40%; EPS = \$3.18; Stock price = \$31.20
- D) Debt = 80%; Equity = 20%; EPS = \$3.42; Stock price = \$30.40

Answer: <https://biology-forums.com/index.php?topic=641859>

Question 335

A toy manufacturer following the self-liquidating debt principle will generally finance seasonal inventory build-up prior to the Holiday season with

- A) common stock.
- B) selling equipment.
- C) trade credit.
- D) preferred stock.

Answer: <https://biology-forums.com/index.php?topic=642327>

Question 336

Strategies that exploit market inefficiencies tend to lose their effectiveness when they become widely known.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640982>

Question 337

Skrit Corporation has a net profit margin of 15% and a total asset turnover of 1.7. What is Skrit's return on total assets?

- A) 12.3%
- B) 25.5%

- C) 8.8%
- D) 11.1%

Answer: <https://biology-forums.com/index.php?topic=640639>

Question 338

The higher the discount rate, the greater the importance of the early cash flows.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641371>

Question 339

A history of using different types of credit such as mortgages, auto loans, and credit cards has a negative effect on one's credit score.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642558>

Question 340

Which industry would you expect to have the highest Debt to Asset ratios?

- A) Business oriented software
- B) Electric utilities
- C) Communications equipment
- D) Retail clothing

Answer: <https://biology-forums.com/index.php?topic=641897>

Question 341

Increasing the accounts payable deferral period also increases the cash conversion cycle.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642412>

Question 342

Assuming two investments have equal lives, a high discount rate tends to favor

- A) the investment with large cash flow early.
- B) the investment with large cash flow late.
- C) the investment with even cash flow.
- D) neither investment since they have equal lives.

Answer: <https://biology-forums.com/index.php?topic=640776>

Question 343

A stock split will cause changes in the dollar value of which of the following?

- A) The par value of the stock.
- B) The book value of common equity
- C) The per share price of the stock
- D) A and C, but not B.

Answer: <https://biology-forums.com/index.php?topic=641959>

Question 344

The firm's weighted average cost of capital includes the cost of common stock, preferred stock and retained earnings, but not debt.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641698>

Question 345

Suppose we calculate a times interest earned ratio of 29 for Colgate-Palmolive. We can conclude

- A) Colgate-Palmolive may experience some difficulty meeting its interest payments.
- B) Colgate-Palmolive is very unlikely to have difficulty meeting its interest payments.
- C) Colgate-Palmolive has \$29 of operating cash flow for every dollar of interest expense.
- D) Colgate-Palmolive's EBITDA is 29 times larger than its interest expense.

Answer: <https://biology-forums.com/index.php?topic=641827>

Question 346

Which of the following accounts would normally increase with an increase in sales and approximately in proportion to the sales increase?

- A) Common stock

- B) Inventory
- C) Notes payable
- D) Dividends

Answer: <https://biology-forums.com/index.php?topic=642198>

Question 347

Your firm has the following income statement items: sales of \$50,250,000; income tax of \$1,744,000; operating expenses of \$10,115,000; cost of goods sold of \$35,025,000; and interest expense of \$750,000. What is the amount of the firm's gross profit?

- A) \$18,000,000
- B) \$15,225,000
- C) \$5,000,110
- D) \$6,632,000

Answer: <https://biology-forums.com/index.php?topic=640526>

Question 348

What is the arithmetic average return on her stock if she sells it five years from today?

- A) 1.92%
- B) 3.98%
- C) 6.47%
- D) 7.11%

Answer: <https://biology-forums.com/index.php?topic=640969>

Question 349

What is the present value of an annuity of \$100 received at the end of each year for seven years? The first payment will be received one year from today (round to nearest \$10). The discount rate is 13%. To solve this problem with a financial calculator, the correct choice is

- A) $N=7, i=13, PMT=100, FV=0$, solve for PV.
- B) $N=7, i=13, PV=100, FV=0$, solve for FV.
- C) $N=7, i=13, PMT=100, FV=100$, solve for PV.
- D) $N=7, i=.13, PMT=100, FV=0$, solve for PV.

Answer: <https://biology-forums.com/index.php?topic=640825>

Question 350

An investor would buy a _____ if he or she believes that the price of the underlying stock or asset will fall in the near future.

- A) call option
- B) convertible bond
- C) put option
- D) futures contract to take delivery of an asset at a future date

Answer: <https://biology-forums.com/index.php?topic=642951>

Question 351

Which of the following financial instruments is not traded in the capital markets?

- A) debt with a maturity of less than one year
- B) bonds
- C) common stock
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=640486>

Question 352

The current spot exchange rate between the Japanese yen and the U.S. dollar is 113.25 Y/US\$. The yen is expected to appreciate by 4% against the dollar over the next year. What do you expect the spot exchange rate between the yen and the dollar to be one year from now?

- A) 91.51 Y/US\$
- B) 106.72 Y/US\$
- C) 108.89 Y/US\$
- D) 98.54 Y/US\$

Answer: <https://biology-forums.com/index.php?topic=642733>

Question 353

The ex-dividend date occurs prior to the declaration date.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641997>

Question 354

The interest on corporate bonds is typically paid

- A) semiannually.
- B) annually.
- C) quarterly.
- D) monthly.

Answer: <https://biology-forums.com/index.php?topic=641101>

Question 355

In an efficient market, prices will quickly adjust to new information.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640453>

Question 356

Assume that the current price of FGX stock is \$35, that a 6 month call option on the stock has a strike or exercise price of \$33.00, the risk free rate is 4%, and that you have calculated $N(d_1)$ as .65 and $N(d_2)$ as .55. Use the Black-Scholes model to calculate the price of the option.

Answer: <https://biology-forums.com/index.php?topic=643183>

Question 357

Why is the Debt to Assets Ratio always higher than the Debt to Value ratio?

Answer: <https://biology-forums.com/index.php?topic=641850>

Question 358

Central Mass Ambulance Service can purchase a new ambulance for \$200,000 that will provide an annual net cash flow of \$50,000 per year for five years. Calculate the NPV of the ambulance if the required rate of return is 9%. (Round your answer to the nearest \$1.)

- A) \$50,000
- B) \$(5,061)
- C) \$(5,517)
- D) \$5,517

Answer: <https://biology-forums.com/index.php?topic=641345>

Question 359

Assume that Calamar Corp. has sales of \$7.5 million and accounts payable of \$450,000. The corporation utilizes the percent-of-sales method of financial forecasting. If Calamar is expected to generate sales of \$9 million next year, what will the firm's accounts payable be?

- A) \$540,000
- B) \$450,000
- C) \$405,000
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=642186>

Question 360

The percentage of preferred stock in Spencer's weighted average cost of capital is

- A) 5.9%.
- B) 62.5%.
- C) 4.76%.
- D) 6.25%.

Answer: <https://biology-forums.com/index.php?topic=641704>

Question 361

Sputter Motors has sales of \$3,450,000, total assets of \$1,240,000, cost of goods sold of \$2,550,000, and an inventory turnover of 6.38. What is the amount of Sputter's inventory?

- A) \$421,054
- B) \$638,112
- C) \$543,000
- D) \$399,687

Answer: <https://biology-forums.com/index.php?topic=640640>

Question 362

Use Shark Enterprise's financial statements shown above to determine Shark's gross profit margin in 2017.

- A) 5.6%
- B) 4.5%
- C) 29.7%
- D) 2.2%

Answer: <https://biology-forums.com/index.php?topic=640534>

Question 363

Which of the following is a good reason to use divisional costs of capital?

- A) Division managers have no vested interest in underestimating the capital costs associated with their division.
- B) Divisional costs of capital reduce are relatively easy to estimate.
- C) Comparison firms are often engaged in various lines of business.
- D) The divisions of a company represent well-defined lines of business with different risk characteristics, for example oil and gas exploration and distribution through pipelines.

Answer: <https://biology-forums.com/index.php?topic=641800>

Question 364

Which of the following is considered to be a spontaneous source of financing?

- A) Operating leases
- B) Accounts receivable
- C) Inventory
- D) Accounts payable

Answer: <https://biology-forums.com/index.php?topic=642330>

Question 365

Kelly owns 10,000 shares in McCormick Spices, which currently has 500,000 shares outstanding. The stock sells for \$86 on the open market. McCormick's management has decided on a 2-1 split.

- a. Will Kelly's financial position alter after the split, assuming that the stocks will fall proportionately?
- b. Assuming only a 35% fall on each stock, what will be Kelly's value after the split?

Answer: <https://biology-forums.com/index.php?topic=642017>

Question 366

You are considering investing in Ford Motor Company. Which of the following is an example of diversifiable risk?

- A) Risk resulting from the possibility of a stock market crash
- B) Risk resulting from uncertainty regarding a possible strike against Ford
- C) Risk resulting from an expected recession
- D) Risk resulting from interest rates decreasing

Answer: <https://biology-forums.com/index.php?topic=641027>

Question 367

Which of the following is NOT part of a project's initial cash outflow?

- A) The asset's purchase price
- B) Funds committed to support increased inventory levels due to expected increased sales if the firm adopts the project
- C) A marketing survey completed last year to determine the project's feasibility
- D) Expenses incurred to install the asset

Answer: <https://biology-forums.com/index.php?topic=641447>

Question 368

Debentures are unsecured long-term debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641206>

Question 369

The future value of a lump sum deposited today increases as the number of years of compounding at a positive rate of interest declines.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640765>

Question 370

Caldwell, Inc. sold an issue of 30-year, \$1,000 par value bonds to the public. The bonds carry a 10.85% coupon rate and pay interest semiannually. It

is now 12 years later. The current market rate of interest on the Caldwell bonds is 8.45%. What is the current market price (intrinsic value) of the bonds? Round off to the nearest \$1.

- A) \$751
- B) \$1,177
- C) \$1,220
- D) \$976

Answer: <https://biology-forums.com/index.php?topic=641126>

Question 371

Using the information provided, calculate net income for 2017. Assume a tax rate of 35 percent.

Year 2017
Inventory \$5,000
Revenues 200,000
Depreciation expense 5,000
Cost of goods sold 100,000
Interest expense 10,000
Operating expenses 30,000

- A) \$35,750
- B) \$44,000
- C) \$50,000
- D) \$19,250

Answer: <https://biology-forums.com/index.php?topic=640538>

Question 372

Assume that the current price of FGX stock is \$33, that a 6 month call option on the stock has a strike or exercise price of \$35.00, the risk free rate is 4%, and that you have calculated $N(d_1)$ as .65 and $N(d_2)$ as .55. Use the Black-Scholes model to calculate the price of the option.

Answer: <https://biology-forums.com/index.php?topic=643185>

Question 373

Spontaneous sources of financing may be either short-term or long-term.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642373>

Question 374

Why is it so difficult for firms to find good investment ideas?

Answer: <https://biology-forums.com/index.php?topic=641342>

Question 375

Sales captured from the firm's competitors can be relevant to the capital-budgeting decision.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641536>

Question 376

Which of the following is more true of repurchase offers than of cash dividends?

- A) There is no real expectation that the offer will be repeated on an annual basis.
- B) Repurchase offers require less cash than cash dividends.
- C) Repurchase offers are more appealing to retail investors seeking predictable income.
- D) Repurchase offers convey a strong message that the company expects to have sustainably higher cash flows in the future.

Answer: <https://biology-forums.com/index.php?topic=642135>

Question 377

If you were given the components of current assets and of current liabilities, what ratios could you compute?

- A) Profitability ratios
- B) Capital structure ratios
- C) Asset management ratios
- D) Liquidity ratios

Answer: <https://biology-forums.com/index.php?topic=640604>

Question 378

Which of the following is true regarding Investment Banks?

- A) As a result of the financial crisis of 2008, all stand alone Investment banks either failed, were merged into commercial banks, or became commercial banks.
- B) Under the Glass-Steagal act, commercial banks were allowed to operate as Investment banks.
- C) When Glass-Steagal was repealed in 1999, commercial banks and Investment banks had to be separate entities.
- D) As of 2010, stand alone Investment banks are numerous.

Answer: <https://biology-forums.com/index.php?topic=640466>

Question 379

The expected return on ZV next year is 12% with a standard deviation of 20%. The expected return on TNA next year is 24% with a standard deviation of 30%. The correlation between the two stocks is -.6. If Hannah makes equal investments in ZV and TNA, what is the standard deviation of her portfolio?

- A) 22.47%.
- B) 12.04%
- C) 1.45%.
- D) 16.00%.

Answer: <https://biology-forums.com/index.php?topic=640997>

Question 380

One weakness of the times-interest-earned ratio is that it includes only the annual interest expense as a finance expense that must be paid. True / False?

Answer: <https://biology-forums.com/index.php?topic=640695>

Question 381

The after-tax cost of this debt issue is

- A) 7.92%.
- B) 6.58%.
- C) 12%.
- D) 3.39%.

Answer: <https://biology-forums.com/index.php?topic=641727>

Question 382

The expected rate of return on a share of common stock whose dividends are growing at a constant rate (g) is which of the following?

- A) $(D1 + g)/Vc$
- B) $D1/Vc + g$
- C) $D1/g$
- D) $D1/Vc$

Answer: <https://biology-forums.com/index.php?topic=641227>

Question 383

Current assets of NorthPole.com at the end of each quarter were: 1st quarter \$1.3 million, 2nd quarter \$1.7 million, 3rd quarter \$1.5 million and 4th quarter \$2.2 million. The best estimate for North Pole's permanent current assets is

- A) \$2.2 million.
- B) \$1.675 million.
- C) \$1.3 million.
- D) \$0.9 million.

Answer: <https://biology-forums.com/index.php?topic=642332>

Question 384

Zero coupon bonds are disadvantageous to the issuing firm if interest rates fall.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641207>

Question 385

If the NPV of a project is zero, then the profitability index should equal one.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641423>

Question 386

Which of the following risks would be the best candidate for self insurance?

- A) Potential malpractice suits for a 5 doctor surgery group.
- B) Fire insurance for a business that operates 3 restaurants.
- C) Life insurance on the partners of a 3 lawyer law firm. If one of the partners dies, the other two will need to buy her share of the business.
- D) A large parcel delivery company sustains occasional damage to its vehicles.

Answer: <https://biology-forums.com/index.php?topic=642876>

Question 387

The purpose of financial markets is to bring borrowers and savers together.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640463>

Question 388

Which of the following types of business forms is least risky to investors?

- A) Sole proprietorship
- B) Limited partnership
- C) General partnership
- D) A public corporation

Answer: <https://biology-forums.com/index.php?topic=640385>

Question 389

Barco Corp. common stock is currently selling for \$36.50. A call option on Barco stock costs \$.75 per share on a normal contract of 100 shares. This option has an exercise price of \$39 and expires in one month. What is the minimum value of this option?

- A) \$2.50
- B) \$75
- C) \$0
- D) \$36.50

Answer: <https://biology-forums.com/index.php?topic=642963>

Question 390

The ratio of _____ to _____ is an indicator of the quality of a firm's earnings.

- A) cash flow from operations, net income
- B) liabilities, assets
- C) dividends, interest expense
- D) cash flow from operations, capital expenditures

Answer: <https://biology-forums.com/index.php?topic=640582>

Question 391

If a company has issued preferred stock

- A) the common shareholders will have weaker voting rights.
- B) preferred shareholders will be allowed to choose one or more members of the board of directors.
- C) dividends on preferred stock will be higher than the common dividends.
- D) preferred dividends will have to be paid before the company can pay dividends on common stock.

Answer: <https://biology-forums.com/index.php?topic=641256>

Question 392

If you expect a stock's price to rise, it would be better to purchase a call on that stock than to purchase a put on it.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642997>

Question 393

The form of risk analysis which examines the effect of various combinations of value drivers is known as

- A) scenario analysis.
- B) sensitivity analysis.
- C) value driver analysis.
- D) expected value analysis.

Answer: <https://biology-forums.com/index.php?topic=641588>

Question 394

With foreign exchange contracts, currencies are exchanged

- A) at the specified future date, but at the rate agreed upon at the date of the contract.
- B) immediately, but at the rate agreed upon at the date of the contract.
- C) both parties must place the amount of the contract in escrow until the exercise date of the contract.
- D) payment is made immediately, but the contracted currency will be delivered at the specified future date.

Answer: <https://biology-forums.com/index.php?topic=642578>

Question 395

On timeline, the present is represented as

- A) time sub n.
- B) time zero
- C) time sub i
- D) time 1

Answer: <https://biology-forums.com/index.php?topic=640726>

Question 396

Jen and Barry's Ice Cream needs \$20 million in new capital to expand its production facilities. It will use 40% debt and 60% equity. The company's after-tax cost of debt is 5% and the cost of equity is 12.5%. Flotation costs will be 3% for debt and 9% for equity. What rate should be used to discount the cash flows from the expansion project?

- A) 6.6%
- B) 6.0%
- C) 9.5%
- D) 16.1%

Answer: <https://biology-forums.com/index.php?topic=641810>

Question 397

The capital budgeting decision-making process involves estimating the expected incremental cash flows of a proposal and comparing the present value of these cash flows to the project's cost.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641524>

Question 398

Explain how securities markets provide a link between the corporation and investors.

Answer: <https://biology-forums.com/index.php?topic=640505>

Question 399

Which of the following techniques will always produce a single rate of return estimate?

- A) IRR
- B) MIRR
- C) PI
- D) Discounted payback

Answer: <https://biology-forums.com/index.php?topic=641435>

Question 400

A stock's beta is a measure of its

- A) systematic risk.
- B) unsystematic risk.
- C) company-specific risk.
- D) diversifiable risk.

Answer: <https://biology-forums.com/index.php?topic=641035>

Question 401

Which of the following is most likely to motivate executives to maximize shareholder wealth?

- A) Tying bonuses to cost reductions and meeting budget goals.
- B) Offering them relatively high salaries.
- C) Tying annual bonuses to increases in annual profits.
- D) Compensating them with stock options that can only be exercised after five years.

Answer: <https://biology-forums.com/index.php?topic=640436>

Question 402

A firm's cost of capital is not affected by the amount of leverage it uses.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641699>

Question 403

The debt ratio is a measure of a firm's

- A) leverage.
- B) profitability.
- C) liquidity.
- D) efficiency.

Answer: <https://biology-forums.com/index.php?topic=640603>

Question 404

Webley Corp. is considering two expansion options, but does not have enough capital to undertake both. Project W requires an investment of \$100,000 and has an NPV of \$10,000. Project D requires an investment of \$80,000 and has an NPV of \$8,200. If Webley uses the profitability index to decide, it would

- A) choose D because it has a higher profitability index.
- B) choose W because it has a higher profitability index.
- C) choose D because it has a lower profitability index.
- D) choose W because it has a lower profitability index.

Answer: <https://biology-forums.com/index.php?topic=641378>

Question 405

Discounted payback periods for projects Y and Z are

- A) 1.64 and 1.71 years.
- B) 3.14 years and never
- C) 2 years and 2 years
- D) 5 years and never

Answer: <https://biology-forums.com/index.php?topic=641400>

Question 406

Horace and Myrtle want to buy a house. Their banker offered them a fully amortizing \$95,000 loan at a 12% annual rate for 20 years. What will their monthly payment be if they make equal monthly installments over the next 20 years?

- A) \$1,046
- B) \$749
- C) \$1,722
- D) \$1,346

Answer: <https://biology-forums.com/index.php?topic=640844>

Question 407

A security with a beta of zero has a required rate of return equal to the overall market rate of return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641095>

Question 408

You are considering a portfolio of three stocks with 30% of your money invested in company X, 45% of your money invested in company Y, and 25% of your money invested in company Z. If the betas for each stock are 1.22 for company X, 1.46 for company Y, and 1.03 for company Z, what is the portfolio beta?

- A) 1.24
- B) 1.00
- C) 1.28
- D) 1.33

Answer: <https://biology-forums.com/index.php?topic=641052>

Question 409

Using simulation provides the financial manager with a point estimate of an investment's net present value or internal rate of return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641615>

Question 410

The weighted average cost of capital is the minimum required return that must be earned on additional investment if firm value is to remain unchanged.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641803>

Question 411

What are the differences between forward contracts and futures contracts? What are some advantages and disadvantages of each?

Answer: <https://biology-forums.com/index.php?topic=643033>

Question 412

Competitive market forces make it imperative for a firm to have a systematic strategy for generating capital-budgeting projects.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641335>

Question 413

How much money must you pay into an account at the beginning of each of five years in order to have \$5,000 at the end of the fifth year? Assume that the account pays 12% per year, and round to the nearest \$1.00.

- A) \$703
- B) \$1,390
- C) \$1,550
- D) \$787

Answer: <https://biology-forums.com/index.php?topic=640836>

Question 414

The historical cost principle requires that

- A) assets be valued at their cost when they were acquired.
- B) raw materials costs be recognized at their average price over the last three years.
- C) assets be valued at their average cost over the last three years.
- D) historical costs be used on both the income statement and the balance sheet.

Answer: <https://biology-forums.com/index.php?topic=640516>

Question 415

Liverpool International Corporation's marginal tax rate is 35%. It can issue three-year bonds with a coupon rate of 4.5%. The bonds can be sold now at their par value of \$1,000. Determine the appropriate after-tax cost of debt for Dublin International to use in a capital budgeting analysis.

- A) 6.922%
- B) 4.50%
- C) 2.93%
- D) 1.58%

Answer: <https://biology-forums.com/index.php?topic=641729>

Question 416

Dividend policy is influenced by

- A) a company's investment opportunities.
- B) a firm's capital structure mix.
- C) a company's availability of internally generated funds.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642061>

Question 417

Discuss the merits and shortcomings of using the payback period for capital budgeting decisions.

Answer: <https://biology-forums.com/index.php?topic=641428>

Question 418

What is the value today of an investment that pays \$500 every year at year-end during the next 15 years if the annual interest rate is 9%?

- A) \$4,030.50
- B) \$7,500.00

C) \$3,500.00

D) \$7,000.00

Answer: <https://biology-forums.com/index.php?topic=640855>

Question 419

You are thinking of adding one of two investments to an already well diversified portfolio.

Security A Security B

Expected return = 12% Expected return = 12%

Standard deviation of returns = 20.9% Standard deviation of returns = 10.1%

Beta = .8 Beta = 2

If you are a risk-averse investor

A) security A is the better choice.

B) security B is the better choice.

C) either security would be acceptable.

D) cannot be determined with information given.

Answer: <https://biology-forums.com/index.php?topic=641041>

Question 420

Which of the following is NOT a basic function of a budget?

A) Budgets indicate the need for future short-term financing.

B) Budgets provide the basis for corrective action when actual figures differ from the budgeted figures.

C) Budgets compare historical costs of the firm with its current cost performance.

D) Budgets allow for performance evaluation.

Answer: <https://biology-forums.com/index.php?topic=642235>

Question 421

Problems with using the same company-wide cost of capital for all projects potentially include

A) biasing project selection toward high risk, high return projects.

B) rejection of worthwhile low risk projects.

C) spending an unjustified amount of managerial time and effort justifying a lower cost of capital so that pet projects will be accepted.

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641801>

Question 422

The tradeoff theory of capital structure management assumes

A) no corporate income taxes.

B) cost of equity remains constant with an increase in financial leverage.

C) firms might fail.

D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=641862>

Question 423

Your firm has the following balance sheet statement items: total current liabilities of \$805,000; total assets of \$2,655,000; fixed and other assets of \$1,770,000; and long-term debt of \$200,000. What is the amount of the firm's net working capital?

A) \$25,000

B) \$325,000

C) \$770,000

D) \$80,000

Answer: <https://biology-forums.com/index.php?topic=640563>

Question 424

A correlation coefficient of +1 indicates that returns on one asset can be exactly predicted from the returns on another asset.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641006>

Question 425

To find the present value of an annuity due, one could

A) find the present value of an ordinary annuity and add one extra payment.

B) find the present value of an ordinary annuity but $N=1$ for the number of periods.

C) find the present value of an ordinary annuity and divide by $1+i$.

D) find the present value of an ordinary annuity and multiply by $1+i$.

Answer: <https://biology-forums.com/index.php?topic=640833>

Question 426

The most serious type of political risk involves

- A) restrictive labor concerning hiring, wages and layoffs.
- B) major changes in tax rates.
- C) price and wage controls.
- D) expropriation of assets with limited compensation.

Answer: <https://biology-forums.com/index.php?topic=642798>

Question 427

The primary advantage that factoring accounts receivable provides is

- A) the flexibility it gives to the borrower.
- B) that the financial institution bears the risk of collection.
- C) the low cost as compared with other sources of short-term financing.
- D) that the financial institution services the accounts.

Answer: <https://biology-forums.com/index.php?topic=642458>

Question 428

WSU Inc. is a young company that does not yet pay a dividend. You believe that the company will begin to pay dividends 5 years from now, and that the company will then be worth \$50 per share. If your required rate of return on this risky stock is 20%, what is the stock worth today?

- A) \$40
- B) \$10
- C) \$20.09
- D) \$0.00

Answer: <https://biology-forums.com/index.php?topic=641260>

Question 429

An investment will pay \$500 in three years, \$700 in five years, and \$1,000 in nine years. If the opportunity rate is 6%, what is the present value of this investment?

Answer: <https://biology-forums.com/index.php?topic=640929>

Question 430

How much will Susan's stock be worth if she sells it five years from today?

- A) \$71,423.85
- B) \$73,419.66
- C) \$75,628.75
- D) \$80,333.40

Answer: <https://biology-forums.com/index.php?topic=640971>

Question 431

Kahnemann Kookies is evaluating the replacement of an old oven with a new, more energy efficient model. The old oven cost \$50,000, is 5 years old and is being depreciated over a life of 10 years to a value of \$0.00. The new oven costs \$60,000 and will be depreciated over 5 years with no salvage value. Kahnemann uses straight line depreciation, its tax rate is 40%. Compute:

- a. the change in annual depreciation that would result from purchasing the new machine.
- b. the change in taxes each year that would result from purchasing the new machine.

Answer: <https://biology-forums.com/index.php?topic=641566>

Question 432

Brimfield Corp. has total cash available of \$1 million, but decides to match last year's dividend payout of \$1.5 million. If the company raises the extra \$500,000 by selling stock, the decision to pay out more than its available cash in dividends should

- A) cause the stock price to increase.
- B) have no effect on the value of the stock.
- C) cause the stock price to decrease.
- D) a company cannot use money raised by selling to stock to pay a dividend to existing stockholders.

Answer: <https://biology-forums.com/index.php?topic=642077>

Question 433

If you plotted the future value of \$1,000 growing at any interest rate greater than 0 with dollars on the vertical axis and time on the horizontal axis, the resulting curve would

- A) slope upward at a constant rate.
- B) eventually become parallel to the horizontal axis.
- C) slope upward at a decreasing rate.
- D) slope upward at an increasing rate.

Answer: <https://biology-forums.com/index.php?topic=640762>

Question 434

Which of the following would NOT typically be used for assessing customer quality for purposes of granting trade credit?

- A) Ratio analysis
- B) Aging of accounts receivable
- C) Credit scoring
- D) Credit rating services

Answer: <https://biology-forums.com/index.php?topic=642527>

Question 435

Commercial paper

- A) rates are generally higher than rates on bank loans and comparable sources of short-term financing.
- B) generally has a minimum compensating balance requirement.
- C) offers the firm with very large credit needs a single source for all its short-term financing.
- D) has all of the properties stated above.

Answer: <https://biology-forums.com/index.php?topic=642322>

Question 436

Current assets include

- A) All assets that have not been fully depreciated.
- B) Accounts payable, accounts receivable and short-term notes.
- C) Cash, accounts receivable and leased equipment.
- D) Cash, accounts receivable and inventory.

Answer: <https://biology-forums.com/index.php?topic=642279>

Question 437

The present value of an annuity increases as the discount rate increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640873>

Question 438

Briefly explain what is meant by a real option in capital budgeting. Give 2 concrete examples.

Answer: <https://biology-forums.com/index.php?topic=641681>

Question 439

Which of the following comparisons are used to assess a company's current performance?

- A) Industry average comparisons.
- B) Same company ratios from recent past years.
- C) Comparisons with a selected company or group of companies having similar characteristics.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=640703>

Question 440

Jay Coleman just graduated. He plans to work for five years and then leave for the Australian "Outback" country. He figures that he can save \$3,500 a year for the first three years and \$5,000 a year for the next two years. These savings will start one year from now. In addition, his family gave him a \$2,500 graduation gift. If he puts the gift, and the future savings when they start, into an account that pays 7.75% compounded annually, what will his financial "stake" be when he leaves for Australia five years from now? Round off to the nearest \$1.

- A) \$36,082
- B) \$24,725
- C) \$30,003
- D) \$27,178

Answer: <https://biology-forums.com/index.php?topic=640908>

Question 441

At 8% compounded annually, how long will it take \$750 to double?

- A) 6.5 years
- B) 48 months
- C) 9 years
- D) 12 years

Answer: <https://biology-forums.com/index.php?topic=640737>

Question 442

Which of the following is NOT used to calculate the cost of debt?

- A) Face value of the debt
- B) Market price of the debt
- C) Number of years to maturity
- D) Risk-free rate

Answer: <https://biology-forums.com/index.php?topic=641720>

Question 443

Long-term financial plans require that the firm have well-defined goals and objectives.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642169>

Question 444

In year 3 of project Gamma, sales were \$3,000,000, cost of goods sold \$1,500,000, other cash costs were \$400,000, depreciation was \$600,000 and interest expense was \$250,000. The company's marginal tax rate is 35%. Compute operating cash flow for year 3 of project Gamma.

- A) \$925,000
- B) \$675,000
- C) \$500,000
- D) \$325,000

Answer: <https://biology-forums.com/index.php?topic=641516>

Question 445

The opportunity cost of securities issued by a firm is determined by

- A) the rate of return investors could earn on riskless securities.
- B) the rate of return on the firm's next best investment opportunity.
- C) the rate of return investors could obtain on similar securities.
- D) the weighted average rate of return on all securities issued by the firm.

Answer: <https://biology-forums.com/index.php?topic=641781>

Question 446

The balance includes information about the company's assets and liabilities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640519>

Question 447

Common stockholders are essentially creditors of the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641261>

Question 448

The spot exchange rate for the Thai bhat is 30.000 bhat to the dollar or .00333 dollar to the bhat. For capital budgeting purposes, Ramo Corp needs to estimate the exchange rate 5 years from now. The U.S. interest rate is 2%; the interest rate in Thailand is 6%. The estimated 5 year forward rate is

- A) 24.75 bhat to the dollar.
- B) 36.36 bhat to the dollar.
- C) 40.15 bhat to the dollar.
- D) 27.17 bhat to the dollar.

Answer: <https://biology-forums.com/index.php?topic=642781>

Question 449

It is January 1st and Darwin Davis has just established an IRA (Individual Retirement Account). Darwin will put \$1,000 into the account on December 31st of this year and at the end of each year for the following 39 years (40 years total). How much money will Darwin have in his account at the beginning of the 41st year? Assume that the account pays 12% interest compounded annually, and round to the nearest \$1,000.

- A) \$93,000
- B) \$766,000
- C) \$767,000
- D) \$850,000

Answer: <https://biology-forums.com/index.php?topic=640830>

Question 450

Project November requires an initial investment of \$500,000. The present value of operating cash flows is \$550,000. Project December requires an initial investment of \$750,000. The present value of operating cash flows is \$810,000.

- a. Compute the profitability index for each project.
- b. If the the projects are mutually exclusive, does the profitability index rank them correctly?

Answer: <https://biology-forums.com/index.php?topic=641429>

Question 451

Which of the following factors will influence a firm's P/E ratio?

- A) The investors' required rate of return
- B) Firm investment opportunities
- C) General market conditions
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641278>

Question 452

Spartan Sofas, Inc. is selling for \$50.00 per share today. In one year, Spartan will be selling for \$48.00 per share, and the dividend for the year will be \$3.00. What is the cash return on Spartan stock?

- A) \$51.00
- B) \$1.00
- C) \$2.00
- D) \$3.00

Answer: <https://biology-forums.com/index.php?topic=640937>

Question 453

A firm with high profitability will always have the cash flow necessary to pay high dividends.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642105>

Question 454

If investors became more risk averse The SML would shift downward and the slope of the SML would fall.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641094>

Question 455

Heavy Load, Inc. has sales of \$3,450,000, total assets of \$1,240,000, and total liabilities of \$275,000, which consist strictly of notes payable. The firm's operating profit margin is 16.1%, and it pays a 10% rate of interest on its notes payable. How much is the firm's times-interest-earned?

- A) 15.6
- B) 45.3
- C) 20.2
- D) 3.0

Answer: <https://biology-forums.com/index.php?topic=640649>

Question 456

Secured loans are those that are secured by the lender's faith in the ability of the borrower to repay the funds when due.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642497>

Question 457

Approximately what percentage of new businesses survive their first year?

- A) 20%
- B) 40%
- C) 60%
- D) 80%

Answer: <https://biology-forums.com/index.php?topic=641573>

Question 458

A would be entrepreneur is considering buying a franchise from a national chain of fitness centers. Identify some of the risks she might face.

Answer: <https://biology-forums.com/index.php?topic=641580>

Question 459

The firm's weighted average cost of capital is

- A) 10.47%.
- B) 9.29%.
- C) 8.63%.
- D) 7.71%.

Answer: <https://biology-forums.com/index.php?topic=641751>

Question 460

As the number of compounding periods per year increase, the annual percentage rate of interest increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640808>

Question 461

Sketch a timeline that represents an immediate investment of \$20,000 with \$25,000 to be received at the end of 4 years.

Answer: <https://biology-forums.com/index.php?topic=640735>

Question 462

The cash budget only includes items that also appear on the income statement, although the timing may be different.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642268>

Question 463

If your opportunity cost is 12%, how much will you pay for a bond that pays \$100 per year forever?

Answer: <https://biology-forums.com/index.php?topic=640902>

Question 464

When various capital budgeting techniques rank mutually exclusive projects differently, which of the following is theoretically most reliable?

- A) IRR
- B) Equivalent annual cost (EAC).
- C) NPV
- D) Discounted payback

Answer: <https://biology-forums.com/index.php?topic=641438>

Question 465

Suppose you are 40 years old and plan to retire in exactly 20 years. 21 years from now you will need to withdraw \$5,000 per year from a retirement fund to supplement your social security payments. You expect to live to the age of 85. How much money should you place in the retirement fund each year for the next 20 years to reach your retirement goal if you can earn 12% interest per year from the fund?

Answer: <https://biology-forums.com/index.php?topic=640928>

Question 466

Holding all other variables constant, payment per period for an annuity due will be higher than an ordinary annuity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640879>

Question 467

A stock currently sells for \$63 per share, and the required return on the stock is 10%. Assuming a growth rate of 5%, calculate the stock's last dividend paid.

- A) \$1
- B) \$3
- C) \$5
- D) \$7

Answer: <https://biology-forums.com/index.php?topic=641241>

Question 468

A stock with a beta of 1.0 would on average earn the risk-free rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641058>

Question 469

The Seattle Corporation has been presented with an investment opportunity which will yield cash flows of \$30,000 per year in Years 1 through 4, \$35,000 per year in Years 5 through 9, and \$40,000 in Year 10. This investment will cost the firm \$100,000 today, and the firm's cost of capital is 10%. Assume cash flows occur evenly during the year. The discounted payback period is

- A) 5.23 years.
- B) 4.26 years.
- C) 4.35 years.
- D) 3.72 years.

Answer: <https://biology-forums.com/index.php?topic=641405>

Question 470

Stock D will pay a \$1.00 dividend tomorrow morning and will pay \$1.00 dividends at the end of each of the next 2 years. At the end of year 2, stock D will be worth \$29. Stock R, on the other hand, pays no dividend, but will be worth \$32.31 at the end of year 2. If the investor's required rate of return is 10%, then stock D is worth _____ right now and stock R is worth _____.

- A) D is worth \$30.96 and R is worth \$26.70.
- B) D and R are both worth \$26.70.
- C) D is worth \$29.09 and R is worth \$29.37.
- D) D and R are both worth \$29.37.

Answer: <https://biology-forums.com/index.php?topic=642047>

Question 471

GAAP, Inc. has total assets of \$2,575,000, sales of \$5,950,000, total liabilities of \$1,855,062, and a net profit margin of 2.9%. What is GAAP's return on equity? Round to the nearest 0.1%.

- A) 8.6%
- B) 24.0%
- C) 16.4%
- D) 4.4%

Answer: <https://biology-forums.com/index.php?topic=640646>

Question 472

A small start-up company should choose an industry leader in the same industry as a benchmark.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640706>

Question 473

Which of the following is NOT a typical characteristic of money-market securities?

- A) Little or no default risk
- B) Liquid, easily bought and sold
- C) Interest is not taxable at federal level
- D) Maturities less than 1 year

Answer: <https://biology-forums.com/index.php?topic=642520>

Question 474

A reputation for unethical behavior can negatively affect the value of a company's stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640428>

Question 475

ABC already spent \$85,000 on a feasibility study for a machine that will produce a new product. The machine will cost \$2,575,000. Required modifications will cost \$375,000. ABC will need to invest \$75,000 for additional inventory. The machine has an IRS approved useful life of 7 years; it is presumed to have no salvage value. It will only be operated for 3 years, after which it will be sold for \$600,000. What is the depreciable cost basis of the machine?

- A) \$3,025,000
- B) \$2,950,000
- C) \$2,575,000
- D) \$2,350,000

Answer: <https://biology-forums.com/index.php?topic=641501>

Question 476

The expected return on VZ next year is 12% with a standard deviation of 20%. The expected return on ANT next year is 24% with a standard deviation of 30%. The correlation between the two stocks is .6. If Emily makes equal investments in VZ and ANT, what is the standard deviation of her portfolio?

- A) 22.47%
- B) 25.00%
- C) 5.05%
- D) 15.00%

Answer: <https://biology-forums.com/index.php?topic=640996>

Question 477

Adam and Eve are thinking of leaving their high pressure jobs in finance and buying a frozen yogurt franchise. The franchise will generate strong positive cash flow initially, but the potential owners are not sure how long demand for this product will continue into the future. A useful technique for making this decision would be

- A) the discounted payback method.
- B) the profitability index.
- C) the internal rate of return.
- D) the modified internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=641407>

Question 478

A loan amortization schedule provides a breakdown of loan payments into principal and interest payments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640878>

Question 479

Which of the following is NOT included in computing EBT (earnings before taxes)?

- A) Marketing expenses
- B) Depreciation expense
- C) Cost of goods sold
- D) Dividends

Answer: <https://biology-forums.com/index.php?topic=640524>

Question 480

Common shareholders have a claim on the company's assets

- A) at any time, equal to the value of their shares.
- B) only after the claims of debtholders and preferred shareholders have been satisfied.
- C) after the claims of the preferred shareholders have been satisfied, but before the debt holders.
- D) never. Common shareholders have no claim on the company's assets.

Answer: <https://biology-forums.com/index.php?topic=641247>

Question 481

Mayspring Corporation common stock is currently selling for \$72.00 per share. A call option on Mayspring Corporation that expires in two months has an exercise price of \$72.50. This call option is said to be

- A) out-of-the-money.
- B) at-the-money.
- C) in-the-money.
- D) covered.

Answer: <https://biology-forums.com/index.php?topic=642957>

Question 482

The end of one time period and the beginning of the next occupy the same place on a timeline.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640730>

Question 483

Kingsbury Associates has current assets as follows:

Cash \$3,000

Accounts receivable \$4,500

Inventories \$8,000

If Kingsbury has a current ratio of 3.2, what is its quick ratio?

A) 2.07

B) 1.55

C) 0.48

D) 0.96

Answer: <https://biology-forums.com/index.php?topic=640624>

Question 484

Flotation costs increase the amount of funds that must be raised to finance an investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641818>

Question 485

Share repurchases convey information to investors that the shares are underpriced.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642152>

Question 486

Transaction costs

A) encourage firms to retain earnings rather than pay dividends.

B) encourage firms to pay large dividends. rather than retain earnings.

C) are encountered whenever a firm pays a dividend.

D) are incurred when investors fail to cash their dividend check.

Answer: <https://biology-forums.com/index.php?topic=642031>

Question 487

Which of the following has a beta of 1?

A) The 10 year T-Bond

B) The 1 year T-Bill

C) The Dow-Jones Industrial Average

D) The market

Answer: <https://biology-forums.com/index.php?topic=641034>

Question 488

Bonds are rated by either Moody's or Standard & Poors or both.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641116>

Question 489

National Geographic is replacing an old printing press with a new one. The old press is being sold for \$350,000 and it has a net book value of \$75,000.

Assume that National Geographic is in the 40% income tax bracket. How much will National Geographic pay in income taxes from the sale?

A) \$140,000

B) \$45,000

C) \$110,000

D) \$87,010

Answer: <https://biology-forums.com/index.php?topic=641558>

Question 490

You hold a portfolio with the following securities:

Percent
Security of Portfolio Beta Return
X Corporation 20% 1.35 14%
Y Corporation 35% .95 10%
Z Corporation 45% .75 8%

Compute the expected return and beta for the portfolio.

- A) 10.67%, 1.02
- B) 9.9%, 1.02
- C) 34.4%, .94
- D) 9.9%, .94

Answer: <https://biology-forums.com/index.php?topic=641039>

Question 491

Which of the following statements is true?

- A) Interest rate parity indicates that the forward premium or discount should be greater than the differences in the national interest rates for securities of the same maturity.
- B) Purchasing power parity indicates that, in the long run, exchange rates adjust to reflect international differences in inflation so that the purchasing power of each currency tends to remain the same.
- C) The International Fisher Effect indicates that the nominal interest rate should be the same all over the world at all times if the market is efficient.
- D) Both B and C.

Answer: <https://biology-forums.com/index.php?topic=642744>

Question 492

Liquidity risk reflects the possibility that under some market conditions, bonds may prove difficult to sell.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641219>

Question 493

Unlike the owner of a(n) _____ contract, the owner of a(n) _____ contract does not have to exercise it

- A) put, call
- B) option, futures
- C) futures, option
- D) long, short

Answer: <https://biology-forums.com/index.php?topic=642975>

Question 494

Your company is considering a project with the following cash flows:

Initial outlay = \$1,748.80
Cash flows Years 1-6 = \$500

Compute the IRR on the project.

- A) 9%
- B) 11%
- C) 18%
- D) 24%

Answer: <https://biology-forums.com/index.php?topic=641383>

Question 495

Discretionary financing needs implies

- A) that management may choose between various forms of debt and equity.
- B) that the purchases being financed are optional rather than necessary.
- C) that management has considerable discretion in how to dispose of retained earnings.
- D) that management may choose between debt, new equity or retained earnings.

Answer: <https://biology-forums.com/index.php?topic=642191>

Question 496

High coverage ratios, compared with a standard, imply unused debt capacity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641934>

Question 497

You are considering two investments. Investment A yields 10% compounded quarterly. Investment B yields $i\%$ compounded semiannually. Both investments have equal annual yields. Find i .

- A) 19.875%
- B) 10%
- C) 10.38%
- D) 10.125%

Answer: <https://biology-forums.com/index.php?topic=640804>

Question 498

Some complexities of conducting international business include

- A) multiple currencies.
- B) differing legal requirements.
- C) restrictions on repatriating earnings.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642784>

Question 499

Miller Metalworks had sales in November of \$60,000, in December of \$40,000, and in January of \$80,000. Miller collects 40% of sales in the month of the sale and 60% one month after the sale. Calculate Miller's cash receipts for January.

- A) \$44,000
- B) \$56,000
- C) \$64,000
- D) \$72,000

Answer: <https://biology-forums.com/index.php?topic=642252>

Question 500

When equipment is acquired under a capital lease, the tax deduction for depreciation is taken by

- A) the lessee.
- B) the lessor
- C) neither the lessor nor the lessee
- D) both the lessor and lessee.

Answer: <https://biology-forums.com/index.php?topic=641928>

Question 501

Total shares outstanding will be

- A) 20,000 under alternative I and zero under alternative II.
- B) 40,000 under alternative I and 60,000 under alternative II.
- C) 60,000 under alternative I and 40,000 under alternative II.
- D) 60,000 under both alternative I and alternative II.

Answer: <https://biology-forums.com/index.php?topic=641917>

Question 502

The last amount shown on a timeline represents the future value of all amounts invested up to that point.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640733>

Question 503

Which of the following are considered to be spontaneous sources of financing (i.e., they arise naturally during the course of doing business)?

- A) Notes payable and common stock
- B) Accounts receivable and bonds
- C) Fixed assets and inventory
- D) Accounts payable and accrued expenses

Answer: <https://biology-forums.com/index.php?topic=642180>

Question 504

Cranston Plastic Packaging Solutions has run a simulation on a large project to produce eco-friendly packaging for personal hygiene products. The mean NPV is an impressive \$8,000,000, but there is a 16% probability of a negative NPV and a 5% probability of an NPV worse than (\$6,000,000).

- A) Cranston should reject the project. It is too risky.
- B) Cranston should accept the project. The odds are in their favor.
- C) Cranston should explore options to reduce the likelihood of very unfavorable outcomes.
- D) Cranston should change the probabilities used in the simulation to reduce the likelihood of a negative NPV.

Answer: <https://biology-forums.com/index.php?topic=641613>

Question 505

Which item would constitute poor collateral for an inventory loan?

- A) Lumber
- B) Vegetables
- C) Copper
- D) Chemicals

Answer: <https://biology-forums.com/index.php?topic=642422>

Question 506

What is the yield to maturity of a nine-year bond that pays a coupon rate of 20% per year, has a \$1,000 par value, and is currently priced at \$1,407? Assume annual coupon payments.

- A) 21.81%
- B) 6.14%
- C) 12.28%
- D) 11.43%

Answer: <https://biology-forums.com/index.php?topic=641129>

Question 507

The Director of Capital Budgeting of Capital Assets Corp. is considering the acquisition of a new high speed photocopy machine. The photocopy machine is priced at \$85,000 and would require \$2,000 in transportation costs and \$4,000 for installation. The equipment will have a useful life of 5 years. The proposal will require that Capital Assets Corp. send a technician for training at a cost of \$5,000. The firm's marginal tax rate is 40 percent. How much is the initial cash outlay of the photocopy machine?

- A) \$64,000
- B) \$77,000
- C) \$81,000
- D) \$96,000

Answer: <https://biology-forums.com/index.php?topic=641511>

Question 508

Historically, in the United States stocks have had higher returns and greater volatility than have government bonds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640960>

Question 509

The analysis of a firm's financial statements is usually of interest only to people who do not work for the company.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640591>

Question 510

The 6 month interest rate in Australia is 0.6%. The spot exchange rate for Australian dollars is 1.4063 to the U.S.dollar. The 6 months forward rate is 1.4259 to the U.S. dollar. These prices indicate that the 6 month risk-free rate in the U.S. is

- A) 6.00%.
- B) 3.02%.
- C) 3.42%.
- D) 2.00%.

Answer: <https://biology-forums.com/index.php?topic=642727>

Question 511

"Float" is the term given to

- A) differences between the cash balance and the balance of cash plus marketable securities.
- B) differences between the cash balance in the ledger and the funds available in the firm's checking account.
- C) the period between the date an invoice is received and the date on which it must be paid.
- D) the practice of deliberately delaying payments beyond the due date.

Answer: <https://biology-forums.com/index.php?topic=642524>

Question 512

(Business of Life) What guidelines should determine whether or not an individual should buy life insurance?

Answer: <https://biology-forums.com/index.php?topic=642892>

Question 513

Assume that an investor owned 5,000 shares of Anheuser-Busch Corporation common stock prior to the acquisition by InBev of Belgium. At the time of the acquisition, the dollar was worth .77 euro. Further assume that the purchase price was equal to 54 euros per share. What was the sales price of Anheuser Busch common stock per share in U.S. dollars?

- A) \$41.58
- B) \$54
- C) \$77
- D) \$70.13

Answer: <https://biology-forums.com/index.php?topic=642600>

Question 514

Asset A has a required return of 18% and a beta of 1.4. The expected market return is 14%. What is the risk-free rate? Plot the security market line.

Answer: <https://biology-forums.com/index.php?topic=641097>

Question 515

The revenue recognition principle requires that

- A) revenue be recognized only after cash payment has been received.
- B) only the amount of revenue for which cash will be received in the current fiscal year be recognized in the current year.
- C) allows considerable latitude in the timing of revenue recognition.
- D) revenue be recognized in the period when the firm becomes entitled to payment for goods or services delivered.

Answer: <https://biology-forums.com/index.php?topic=640514>

Question 516

The machine's incremental after-tax cash inflow for year 1 is

- A) \$6,420.
- B) \$7,980.
- C) \$8,620.
- D) \$5,980.

Answer: <https://biology-forums.com/index.php?topic=641497>

Question 517

U. S. companies differ very little in their capital structures.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641901>

Question 518

Jeffrey believes that if he can make a good case for opening a new store in the chain for which he works, he will be promoted to manager. Can we be confident that Jeffrey's sales forecasts are accurate?

Answer: <https://biology-forums.com/index.php?topic=641581>

Question 519

The expected return on the market portfolio is currently 11%. Battmobile Corporation stockholders require a rate of return of 23.0%, and the stock has a beta of 2.5. According to CAPM, determine the risk-free rate.

- A) 17.5%
- B) 2.75%
- C) 3.0%
- D) 9.2%

Answer: <https://biology-forums.com/index.php?topic=641078>

Question 520

Trade credit appears on a company's balance sheet as accounts payable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642367>

Question 521

Short-term financial plans span a period of

- A) up to five years.
- B) one to three years.
- C) a year or less.
- D) 1 month or less.

Answer: <https://biology-forums.com/index.php?topic=642159>

Question 522

What is the most important ingredient in developing a firm's financial plan?

- A) A forecast of sales revenues
- B) Determining the amount of dividends to pay shareholders
- C) Projecting the rate of interest on proposed new debt
- D) Deciding upon which method of depreciation a firm should utilize

Answer: <https://biology-forums.com/index.php?topic=642173>

Question 523

A call option gives its owner the right to sell a given number of shares or some other asset at a specified price over a given period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643015>

Question 524

Simulation analysis is basically a form of scenario analysis in which a great many scenarios are examined to produce a probability distribution of possible outcomes.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641616>

Question 525

Which of the following is a conclusion of agency theory?

- A) Managers may accept excessive financial risks to increase the returns to shareholders.
- B) Managers tend to avoid high-risk, high-return investments that may jeopardize their positions if successful.
- C) Managers will always use the least expensive source of funds to finance investments.
- D) Managers will tend to put the stockholders interests before their own security and ambitions.

Answer: <https://biology-forums.com/index.php?topic=641869>

Question 526

Dew Point Dynamite, Inc. generated a 1.23 total asset turnover in its latest fiscal year on assets of \$2,112,077. The firm has total liabilities of \$950,997. The firm's net profit margin was 10.3%. What is Dew Point's return on equity? Round to the nearest 0.1%.

- A) 23.1%
- B) 12.6%
- C) 5.5%
- D) 18.2%

Answer: <https://biology-forums.com/index.php?topic=640651>

Question 527

Investment risk is

- A) the probability of achieving a return that is greater than what was expected.
- B) the probability of achieving a beta coefficient that is less than what was expected.
- C) the probability of achieving a return that is less than what was expected.
- D) the probability of achieving a standard deviation that is less than what was expected.

Answer: <https://biology-forums.com/index.php?topic=641047>

Question 528

Which of the following ratios would be the most useful in evaluating the ability of a firm to meet its short-term obligations?

- A) The quick ratio (acid test)
- B) Return on equity
- C) Total asset turnover
- D) Operating profit margin

Answer: <https://biology-forums.com/index.php?topic=640676>

Question 529

The annual percentage rate (APR) on short-term loans from Bank A is 5.75% per year. Bank B claims that their interest rate is only 5.44% per year. However, Bank B charges interest on a discount basis. Which bank is charging the lowest APR on a one-year loan?

Answer: <https://biology-forums.com/index.php?topic=642518>

Question 530

LIBOR last week was 1.88%, this week it is 1.91%. SC Corp. has borrowed \$1,000,000 from North Pole Bank at a rate of one half a percentage point above LIBOR with cap of 2.5% and a floor of 2.0%. What interest was charged to SC last week?

- A) 2.48%
- B) 2.38%
- C) 2.0%
- D) 2.5%

Answer: <https://biology-forums.com/index.php?topic=641119>

Question 531

A commodity such as diesel fuel for which there is no available futures contract might be satisfactorily hedged with

- A) stock index futures.
- B) interest rate futures.
- C) heating oil futures.
- D) electricity futures.

Answer: <https://biology-forums.com/index.php?topic=642937>

Question 532

Most firms use Treasury securities with maturities of _____ to determine the appropriate risk-free rate to use in the CAPM.

- A) 90 days
- B) 180 days
- C) 10 years
- D) 30 years

Answer: <https://biology-forums.com/index.php?topic=641716>

Question 533

Which of the following parties would perform an internal financial analysis?

- A) a financial analyst forecasting the next period's borrowing needs
- B) a firm's competitors
- C) a firm's creditors
- D) analysts for investment companies.

Answer: <https://biology-forums.com/index.php?topic=640588>

Question 534

A firm's capital structure consists of which of the following?

- A) The amount of debt that a firm utilizes
- B) The amount of debt and preferred stock that a firm utilizes
- C) The amount of interest-bearing debt, preferred stock, and common stock that a firm utilizes
- D) The mix of long and short-term debt used by the firm.

Answer: <https://biology-forums.com/index.php?topic=641828>

Question 535

The discount rate used to value a bond is

- A) the coupon interest rate.
- B) determined by the issuing company.
- C) fixed for the life of the bond.
- D) the market rate of interest.

Answer: <https://biology-forums.com/index.php?topic=641135>

Question 536

Which of the following will increase cumulative borrowing in the cash budget?

- A) Slower collections from customers

- B) Slower payments to suppliers
- C) Higher interest rates
- D) Faster collection of receivables

Answer: <https://biology-forums.com/index.php?topic=642236>

Question 537

Which of the following circumstances would invalidate the constant cost of capital assumption?

- A) the project will be financed entirely with debt.
- B) The firm know that it's marginal tax rate will change from 25% to 34% next year.
- C) the project will be financed entirely from retained earnings.
- D) the price of the company's stock is extremely volatile.

Answer: <https://biology-forums.com/index.php?topic=641784>

Question 538

Davis Gas & Electric issued preferred stock in 1985 that had a par value of \$50. The stock pays a dividend of 7.875%. Assume that shares are currently selling for \$62.50. What is the preferred stockholder's expected rate of return? Round to the nearest 0.01%.

- A) 6.30%
- B) 7.88%
- C) 10.25%
- D) 5.02%

Answer: <https://biology-forums.com/index.php?topic=641299>

Question 539

You purchased one July futures contract of pork bellies at \$.59 per lb. One contract represents 40,000 lbs. of pork bellies. By the end of the day, the price had fallen to \$.57 per lb. How much did the value of your contract change during the day?

- A) It rose by \$800.
- B) It fell by \$356.
- C) It fell by \$800.
- D) There is no change in value until the contract expires.

Answer: <https://biology-forums.com/index.php?topic=642943>

Question 540

Long-term financial planning results in

- A) a cash budget.
- B) pro forma financial statements.
- C) a sales forecast for the next 1 to 3 years.
- D) a general narrative detailing near-term scenarios.

Answer: <https://biology-forums.com/index.php?topic=642161>

Question 541

The projected change in retained earnings equals projected net income less any dividends to be paid.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642213>

Question 542

The pertinent issue for determining whether overhead costs should be part of a project's relevant after-tax cash flow is whether the project benefits from the overhead items.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641468>

Question 543

The initial outlay of an asset does not include installation costs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641528>

Question 544

ABC Corporation issued and sold 10 shares of stock to Irene Investor, a private individual. This represents a secondary market transaction.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640491>

Question 545

All capital projects incur flotation costs, no matter how they are financed.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641820>

Question 546

A bond has a coupon rate of 6% paid semi-annually, a par value of \$1,000, and matures tomorrow. The bond will sell for

- A) approximately \$1,030.
- B) approximately \$1,000.
- C) approximately \$1,060.
- D) The price cannot be estimated without knowing the market rate of interest.

Answer: <https://biology-forums.com/index.php?topic=641184>

Question 547

An asset with a large standard deviation of returns can lower portfolio risk if its returns are uncorrelated with the returns on the other assets in the portfolio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641014>

Question 548

The term futures margin refers to

- A) the percent of potential margin for profit associated with a futures contract.
- B) the "good faith" money the purchaser puts down to ensure that the contract will be carried out.
- C) the interest-earning account associated with a futures contract.
- D) the number of contracts outstanding on a particular futures contract.

Answer: <https://biology-forums.com/index.php?topic=642985>

Question 549

The exchange rate that represents the number of units of a foreign currency that can be purchased with one unit of a home currency is referred to as a(n) _____ quote.

- A) forward
- B) direct
- C) market
- D) indirect

Answer: <https://biology-forums.com/index.php?topic=642654>

Question 550

Options can only be purchased for individual stocks, not for funds or indexes.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643001>

Question 551

Given the capital asset pricing model, a security with a beta of 1.5 should return _____, if the risk-free rate is 3% and the market return is 11%.

- A) 16.5%
- B) 14.0%
- C) 14.5%
- D) 15.0%

Answer: <https://biology-forums.com/index.php?topic=641071>

Question 552

Maturity risk and liquidity risk are equivalent terms.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641218>

Question 553

Which of the following factors influence the size of the firm's investments in accounts receivable?

- A) Terms of sale.
- B) Required minimum balance

C) Customer quality

D) A and C

Answer: <https://biology-forums.com/index.php?topic=642535>

Question 554

Toto and Associates' preferred stock is selling for \$18.40. The stock pays an annual dividend of \$2.21 per share. What is the cost of preferred stock to the company?

Answer: <https://biology-forums.com/index.php?topic=641767>

Question 555

Discuss the limitations of ratio analysis.

Answer: <https://biology-forums.com/index.php?topic=640717>

Question 556

Optimal capital structure is

A) the funding mix that will maximize the company's common stock price.

B) the mix of all items that appear on the right-hand side of the company's balance sheet.

C) the mix of funds that will minimize the firm's beta.

D) the mix of securities that will maximize EPS.

Answer: <https://biology-forums.com/index.php?topic=641857>

Question 557

Spontaneous sources of financing include

A) accounts payable and accrued expenses.

B) notes payable and mortgages payable.

C) long-term debt and capital leases.

D) common stock and paid-in capital.

Answer: <https://biology-forums.com/index.php?topic=642192>

Question 558

The weights used to determine the relative importance of the firm's sources of capital should reflect

A) book values in accord with generally accepted accounting principles.

B) current market values for bonds, common stock, and preferred stock and book values for retained earnings.

C) current market values.

D) subjective adjustments for firm risk.

Answer: <https://biology-forums.com/index.php?topic=641686>

Question 559

A firm has a return on equity of 20% and a total asset turnover of 4. Assuming a debt ratio of 50% and sales of \$1,000,000, calculate net income.

A) \$25,000

B) \$50,000

C) \$75,000

D) \$100,000

Answer: <https://biology-forums.com/index.php?topic=640672>

Question 560

You intend to purchase a new car upon graduation in two years. It will have a cost of \$29,371, including all extra features and sales tax. You just received a \$3,000 pre-graduation gift from your rich uncle that you intend to deposit in a money market account that pays 6% interest, compounded monthly. If you use the amount in the money market account for a down payment, and take out an auto loan for the remainder, how much will you need to borrow? (Round to the nearest dollar.)

A) \$29,371

B) \$25,880

C) \$26,371

D) \$26,000

Answer: <https://biology-forums.com/index.php?topic=640917>

Question 561

A firm is conducting an analysis of trends over time and discovers that its inventory turnover has declined. This may be due to

A) an increase in sales.

- B) an increase in cost of goods sold.
- C) an increase in inventory purchases.
- D) a decrease in inventory purchases.

Answer: <https://biology-forums.com/index.php?topic=640659>

Question 562

Individuals who do not work for a company rarely have enough information to perform a detailed financial analysis of the company.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640592>

Question 563

All things equal, as the tax rate increases, the incentive to use more debt financing increases.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641788>

Question 564

A timeline represents the value of a sum invested now at the end of a series of time periods.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640729>

Question 565

Provide an intuitive discussion of beta and its importance for measuring risk.

Answer: <https://biology-forums.com/index.php?topic=641066>

Question 566

In the times-interest-earned ratio, dividend payments are included in:

- A) the numerator.
- B) the denominator.
- C) both the numerator and the denominator.
- D) neither the numerator nor the denominator.

Answer: <https://biology-forums.com/index.php?topic=640656>

Question 567

On a balance sheet, equity equals

- A) Total assets minus total liabilities.
- B) Current assets plus fixed assets.
- C) Fixed assets minus long-term debt.
- D) Long term debt plus preferred stock plus common stock plus retained earnings.

Answer: <https://biology-forums.com/index.php?topic=640567>

Question 568

Georges Bizet owns 10,000 shares of Pearl Co. purchased at an average price of \$15 per share. The tax rate on both dividends and capital gains is 15%. Would Bizet prefer a \$2.00 per share dividend or to sell 1,000 shares back to the company at \$20 per share? Compute his after-tax income from each option.

Answer: <https://biology-forums.com/index.php?topic=642113>

Question 569

Which of the following goals of the firm is equivalent to the maximization of shareholder wealth?

- A) Profit maximization
- B) Risk minimization
- C) Maximization of the total market value of the firm's common stock
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640410>

Question 570

Boulangerie Bouffard expects to sell 1.25 million croissants next year for \$1.50 each. Variable cost of a croissant is \$0.80. Fixed costs are \$150,000, depreciation \$200,000 and the tax rate is 34%. If the bakery can increase the price of a croissant to \$1.75 sales will fall by 50,000 croissants. All other things equal, operating cash flow will increase or decrease by

- A) \$300,000 increase.

- B) \$148,500 increase.
- C) \$148,500 decrease.
- D) \$174,900 increase.

Answer: <https://biology-forums.com/index.php?topic=641602>

Question 571

Which of the following is a characteristic of a limited partnership?

- A) It allows one or more partners to have limited liability.
- B) It requires one or more of the partners to be a general partner to whom the privilege of limited liability does not apply.
- C) It prohibits the limited partners from participating in the management of the partnership.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=640383>

Question 572

What is the chief disadvantage of the sole proprietorship as a form of business organization when compared to the corporate form?

- A) Sole proprietorships are subject to double taxation of profits.
- B) The cost of formation.
- C) Inadequate profit sharing.
- D) Owners have unlimited liability.

Answer: <https://biology-forums.com/index.php?topic=640377>

Question 573

February sales for Ted's Variety Store equal \$100,000, variable costs equal \$60,000, fixed costs, including depreciation of \$20,000, total \$60,000.

- A) Ted's Variety Store broke even with respect to net income.
- B) Ted's Variety Store broke even with respect to cash.
- C) Ted's Variety fell \$20,000 short of cash break-even.
- D) Ted's Variety Store broke even with a \$20,000 surplus.

Answer: <https://biology-forums.com/index.php?topic=641633>

Question 574

The par value of a corporate bond indicates the level of interest payments that will be paid to investors.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641113>

Question 575

A firm's capital structure consists of which of the following?

- A) Common stock
- B) Preferred stock
- C) Bonds
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641688>

Question 576

The standard deviation of a portfolio is always just the weighted average of the standard deviations of assets in the portfolio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641005>

Question 577

What are the three basic questions addressed by the study of investments?

Answer: <https://biology-forums.com/index.php?topic=640375>

Question 578

The company's gross profit margin is EBIT divided by net sales.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640546>

Question 579

What type of risk can investors reduce through diversification?

- A) All risk

- B) Systematic risk only
- C) Unsystematic risk only
- D) Uncertainty

Answer: <https://biology-forums.com/index.php?topic=641044>

Question 580

If investors expected inflation to increase in the future, the SML would shift up, but the slope would remain the same.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641093>

Question 581

What is the expected NPV of the project with the option to expand if the probability of modest success is revised to 70% and great success to 30%?

- A) \$310,000
- B) \$155,00 (no change)
- C) \$213,000
- D) \$97,000

Answer: <https://biology-forums.com/index.php?topic=641666>

Question 582

You have been depositing money at the end of each year into an account drawing 8% interest. What is the balance in the account at the end of year four if you deposited the following amounts?

Year End of Year Deposit

- 1 \$350
 - 2 \$500
 - 3 \$725
 - 4 \$400
- A) \$1,622
 - B) \$2,207
 - C) \$2,384
 - D) \$2,687

Answer: <https://biology-forums.com/index.php?topic=640910>

Question 583

Natick Nurseries has used scenario analysis to evaluate the purchase of a former dairy to use for nursery stock. The best case scenario produced a very favorable NPV of \$4,000,000; the NPV of the most likely case was \$2,000,000, but the worst case scenario resulted in an NPV of \$(3,000,000) which would bring the company close to bankruptcy. Natick could improve its decision by

- A) using sensitivity analysis.
- B) using simulation analysis.
- C) simply accepting the best case scenario and rejecting the other outcomes.
- D) weighting the favorable scenarios more heavily to increase the expected NPV.

Answer: <https://biology-forums.com/index.php?topic=641614>

Question 584

What is the present value of \$150 received at the beginning of each year for 16 years? The first payment is received today. Use a discount rate of 9%, and round your answer to the nearest \$10.

- A) \$1,360
- B) \$1,480
- C) \$1,250
- D) \$1,210

Answer: <https://biology-forums.com/index.php?topic=640822>

Question 585

Are markets moving toward being more efficient or toward being less efficient?

Answer: <https://biology-forums.com/index.php?topic=640988>

Question 586

In the original version of the Modigliani and Miller capital structure theorem, as a firm increases the amount of debt in its capital structure, the cost of equity will rise but the cost of capital will remain the same.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641891>

Question 587

Security A has an expected rate of return of 22% and a beta of 2.5. Security B has a beta of 1.20. If the Treasury bill rate is 2.0%, what is the expected rate of return for security B?

Answer: <https://biology-forums.com/index.php?topic=641098>

Question 588

The yield to maturity on a bond

- A) is fixed in the indenture.
- B) is lower for higher-risk bonds.
- C) is the required return on the bond.
- D) is generally equal to the coupon interest rate.

Answer: <https://biology-forums.com/index.php?topic=641120>

Question 589

A bond is most likely to be called when the market rate is lower than the coupon rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641155>

Question 590

Home to House Distributors is preparing a cash budget. The initial conclusion is that the firm will need to borrow more money than its bank is willing to lend. Which of the following actions could Home to House Distributors perform to reduce its need for bank financing this year?

- A) Pay cash for purchasing inventory instead of having to rely on trade credit
- B) Prepay next year's quarterly income tax payments
- C) Try to collect the firm's accounts receivable faster
- D) Purchase larger quantities of inventory to take advantage of trade discounts

Answer: <https://biology-forums.com/index.php?topic=642262>

Question 591

If the net present value of a direct foreign investment is negative, the multinational firm should

- A) reject any proposals.
- B) consider establishing a sales office.
- C) consider licensing.
- D) both A and C.

Answer: <https://biology-forums.com/index.php?topic=642796>

Question 592

Immediately after the stock split, the stock price will be approximately

- A) \$42.
- B) \$84.
- C) \$2.00.
- D) \$8.00.

Answer: <https://biology-forums.com/index.php?topic=641983>

Question 593

The Smith Corporation has purchased \$500,000 worth of inventory. The vendor offers terms of 1/15 net 45. Unfortunately, Smith does not have enough cash available to take advantage of the discount. It can borrow \$500,000 from Wesson National Bank for 30 days at an annual percentage rate of 6%. Should Smith forego the discount or pay within the discount period with money borrowed from the bank?

Answer: <https://biology-forums.com/index.php?topic=642514>

Question 594

In practice, determinants of dividend policy include, in order of importance

- A) lack of good investment opportunities, influence of large institutional investors, maintaining a stable debt to assets ratio
- B) maintaining a constant dividend payout ratio, attracting retail investors, maintaining a consistent growth rate for dividends
- C) consistency with historical dividend policies, sustainable changes in earnings, tax burden on shareholders.
- D) wishes of large institutional investors, excess cash after investment needs are met, avoiding flotation costs for issuing new equity.

Answer: <https://biology-forums.com/index.php?topic=642123>

Question 595

Which of the following should be considered in the estimation of free cash flows?

- A) Cash generated from the sale of a project
- B) Recovery of net working capital
- C) Operating cash flow
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641510>

Question 596

Brookfield Heavy Equipment is considering a project that will produce after tax cash of \$40,000 per year for 5 years. The project will require an initial investment of \$144,191. At what discount rate will the project reach break-even NPV?

- A) 8%
- B) 10%
- C) 12%
- D) 11.11%

Answer: <https://biology-forums.com/index.php?topic=641644>

Question 597

The required rate of return for Firm A is

- A) 8%.
- B) 12%.
- C) 16%.
- D) Cannot be determined with information given.

Answer: <https://biology-forums.com/index.php?topic=641086>

Question 598

Assume that as the result of a firm announcing a large unexpected increase in its dividend payment, the price of the firm's common stock rises. This event would be consistent with which of the following?

- A) The dividend irrelevance theory
- B) The tax preference theory
- C) The information effect
- D) The beta effect

Answer: <https://biology-forums.com/index.php?topic=642037>

Question 599

The total capital that should be used in computing the weights for Spencer's WACC is

- A) \$1,275
- B) \$2,400
- C) \$2,250
- D) \$1,575

Answer: <https://biology-forums.com/index.php?topic=641705>

Question 600

The First Webster Bank requires borrowers to maintain a balance of 10% of the line of credit in a non-interest paying account as compensation for providing the line of credit. If the borrower would not normally have deposits in such an account,

- A) the amount borrowed will be higher than the amount needed.
- B) the APR will be less than the stated rate.
- C) the amount borrowed will be lower than the amount needed.
- D) neither the amount borrowed nor the APR will be affected by the required balance.

Answer: <https://biology-forums.com/index.php?topic=642428>

Question 601

Briefly describe the actual capital budgeting methods of large U.S. corporations.

Answer: <https://biology-forums.com/index.php?topic=641443>

Question 602

In 2016, the improvement in ABC's return on equity occurred because

- A) ABC used more debt than in 1994.
- B) ABC lowered its expenses in 1995 and was, therefore, more profitable.
- C) ABC utilized its total assets more efficiently in 1995.
- D) None of the above explain the improvement in ABC's return on equity.

Answer: <https://biology-forums.com/index.php?topic=640665>

Question 603

The Modigliani and Miller Capital Structure Theorem suggests that the cost of equity decreases as financial leverage increases. True / False?

Answer: <https://biology-forums.com/index.php?topic=641885>

Question 604

We can use the present value of an annuity formula to calculate constant annual loan payments. True / False?

Answer: <https://biology-forums.com/index.php?topic=640874>

Question 605

Which of the following results in a probability distribution for possible project outcomes rather than a dollar estimate?

- A) Sensitivity analysis
- B) Simulation
- C) Value driver analysis
- D) Scenario analysis

Answer: <https://biology-forums.com/index.php?topic=641591>

Question 606

In response to a temporary decline in earnings per share, most companies would

- A) decrease their cash dividend.
- B) not decrease their cash dividend.
- C) suspend their cash dividend.
- D) substitute a stock dividend for the cash dividend.

Answer: <https://biology-forums.com/index.php?topic=641942>

Question 607

SellUCars, Inc. offers you a car loan at an annual interest rate of 8% compounded monthly. What is the annual percentage yield of the loan?

- A) 8.00%
- B) 8.24%
- C) 8.30%
- D) 8.44%

Answer: <https://biology-forums.com/index.php?topic=640841>

Question 608

You bought a painting 10 years ago as an investment. You originally paid \$85,000 for it. If you sold it for \$484,050, what was your annual return on investment?

- A) 47%
- B) 4.7%
- C) 19%
- D) 12.8%

Answer: <https://biology-forums.com/index.php?topic=640753>

Question 609

Sutter Corporation's common stock is selling for \$16.80 a share. Last year, Sutter paid a dividend of \$.80. Investors are expecting Sutter's dividends to grow at a rate of 5% per year. What is the cost of common equity?

Answer: <https://biology-forums.com/index.php?topic=641768>

Question 610

Which of the following describes the clientele effect concept of dividend policy?

- A) The clientele effect looks at investor preferences for dividends compared to share repurchase programs.
- B) The clientele effect defines the relationship between the shareholder and a stockbroker.
- C) The clientele effect focuses entirely on the stability of dividends.
- D) Modern corporations do not consider shareholders to be "clients."

Answer: <https://biology-forums.com/index.php?topic=642049>

Question 611

When a bond's coupon rate is higher than the required rate of return, the bond

- A) will sell at a discount from par.
- B) will sell at a premium over par
- C) may sell at either a discount or a premium.
- D) will sell at par value.

Answer: <https://biology-forums.com/index.php?topic=641148>

Question 612

The income statement shows a company's earnings since it has been in business.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640518>

Question 613

Spontaneous sources of debt

- A) do not involve selling securities.
- B) are guaranteed by a bank in exchange for the firm keeping a specified level of deposits at that bank.
- C) are non-interest bearing
- D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=642347>

Question 614

A & K Co. expects to have earnings before taxes of \$250,000 to \$300,000. The company's marginal tax rate is 39% and its average tax rate about 33%. For every additional dollar A & K's pays out in common dividends, its income tax liability will

- A) increase by 39 cents.
- B) fall by 39 cents.
- C) be unaffected.
- D) fall by about 33 cents.

Answer: <https://biology-forums.com/index.php?topic=640551>

Question 615

A portfolio containing a mix of stocks, bonds, and real estate is likely to be more diversified than a portfolio made up of only one asset class.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641013>

Question 616

What does the agency problem refer to?

- A) The conflict that exists between the board of directors and the employees of the firm.
- B) The problem associated with financial managers and Internal Revenue agents.
- C) The conflict that exists between stockbrokers and investors.
- D) The problem that results from potential conflicts of interest between the manager of a business and the stockholders.

Answer: <https://biology-forums.com/index.php?topic=640415>

Question 617

Investors are always rewarded for taking higher risk with higher realized returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640962>

Question 618

The international currency system that presently exists is best described as a _____ rate currency system.

- A) parity
- B) fixed
- C) multinational
- D) floating

Answer: <https://biology-forums.com/index.php?topic=642656>

Question 619

Investors require a higher return on common stock investments if a firm uses less leverage.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641882>

Question 620

Estimating a divisional cost of capital by comparing the division to a similar free-standing company is known as

- A) Divisional Average Cost of Capital approach (DACC).
- B) Segmental Capital Structure approach. (SCS).
- C) the "pure play" approach.
- D) Project Specific Approach (PSA).

Answer: <https://biology-forums.com/index.php?topic=641798>

Question 621

Why has the popularity of stock repurchases been growing faster than the cash dividends as a method for companies to distribute cash to their stockholders.

Answer: <https://biology-forums.com/index.php?topic=642019>

Question 622

An investor purchased 1,000,000 Canadian dollars at an exchange rate of \$0.756 U.S. to the Canadian dollar.

- A) \$132,275
- B) \$756,000
- C) \$1,322,751
- D) \$75,600

Answer: <https://biology-forums.com/index.php?topic=642591>

Question 623

Which of the following represents a source of cash?

- A) a decrease in accounts payable
- B) a decrease in accounts receivable
- C) payment of dividends
- D) an increase in inventories

Answer: <https://biology-forums.com/index.php?topic=640579>

Question 624

With respect to the capital budgeting practices of large U. S. corporations

- A) the profitability index has been gaining in popularity.
- B) IRR and NPV have been gaining in popularity.
- C) payback and discounted payback have been gaining in popularity.
- D) IRR and NPV have declined in popularity.

Answer: <https://biology-forums.com/index.php?topic=641434>

Question 625

If current market interest rates rise, what will happen to the value of outstanding bonds?

- A) It will rise.
- B) It will fall.
- C) It will remain unchanged.
- D) There is no connection between current market interest rates and the value of outstanding bonds.

Answer: <https://biology-forums.com/index.php?topic=641177>

Question 626

A perpetuity will grow at the rate of 5% per year. One year from the date of purchase, it will pay \$50,000. If the appropriate discount rate is 10%, what is the value of the perpetuity?

- A) \$1,000,000
- B) \$500,000
- C) \$5,000,000
- D) \$1,050,000

Answer: <https://biology-forums.com/index.php?topic=640895>

Question 627

Sonderson Corporation is undertaking a capital budgeting analysis. The firm's beta is 1.5. The rate on 10 year T-Bonds is 1.6% and the return on the S&P 500 index is 8%. What is the appropriate cost of common equity in determining the firm's cost of capital?

- A) 12.0%

- B) 11.2%
- C) 13.6%
- D) 9.6%

Answer: <https://biology-forums.com/index.php?topic=641715>

Question 628

When a company pays a dividend on common stock, it appears as

- A) an expense on the income statement.
- B) a reduction in the amount of retained earnings.
- C) a current liability on the balance sheet.
- D) dividend payments have no effect on the financial statements.

Answer: <https://biology-forums.com/index.php?topic=640569>

Question 629

A diagram for visualizing future cash flows is known as

- A) a future value vector.
- B) a cash flow chart.
- C) an FV/PV plot.
- D) a timeline.

Answer: <https://biology-forums.com/index.php?topic=640725>

Question 630

You are leaving Mexico and have 3,200 pesos to change into dollars. The exchange rate is 12.5 pesos to the dollar. How many dollars will you receive?

- A) \$256
- B) You will receive \$400.
- C) \$2,560
- D) \$40.00

Answer: <https://biology-forums.com/index.php?topic=642606>

Question 631

When flotation costs are involved, a project's initial investment should be computed as

- A) project investment + flotation costs.
- B) project investment x (1+ weighted average flotation costs).
- C) project investment/(1-weighted average flotation cost).
- D) project investment is unaffected, but the cost of capital must be adjusted for flotation costs.

Answer: <https://biology-forums.com/index.php?topic=641817>

Question 632

Preferred stock prices are solely dependent on investors' expectations of future cash flows to the corporation.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640499>

Question 633

Which of the following would be considered a capital budgeting decision?

- A) Walmart purchases inventory for resale to customers.
- B) Apple sells bonds and uses the proceeds to repurchase stock.
- C) Goldman Sachs obtains short-term loans to finance day to day operations.
- D) Pfizer develops a new therapy and brings it to market.

Answer: <https://biology-forums.com/index.php?topic=641330>

Question 634

A bond investor seeking capital gains should purchase

- A) bonds with short maturity dates when interest rates are expected to rise.
- B) bonds with distant maturity dates when interest rates are expected to rise.
- C) bonds with short maturity dates when interest rates are expected to decline.
- D) bonds with distant maturity dates when interest rates are expected to decline.

Answer: <https://biology-forums.com/index.php?topic=641188>

Question 635

What is meant by interest rate parity?

Answer: <https://biology-forums.com/index.php?topic=642765>

Question 636

Which of the following is NOT considered a permanent source of financing?

- A) Corporate bonds
- B) Common stock
- C) Preferred stock
- D) Commercial paper

Answer: <https://biology-forums.com/index.php?topic=642315>

Question 637

In Financial markets, borrowers and lenders most both be located in the same country.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640476>

Question 638

The Board of Directors of Waste Free Chemicals is considering the acquisition of a new chemical processor. The processor is priced at \$600,000 but would require \$60,000 in transportation costs and \$40,000 for installation. The processor will have a useful life of 10 years. The project will require Waste Free to increase its investment in accounts receivable by \$80,000 and will also require an additional investment in inventory of \$150,000. The firm's marginal tax rate is 40 percent. How much is the initial cash outlay of the processor?

- A) \$700,000
- B) \$850,000
- C) \$930,000
- D) \$1,040,000

Answer: <https://biology-forums.com/index.php?topic=641517>

Question 639

Risky investments have the potential for higher returns, but also larger losses.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640959>

Question 640

Miniature Molding is planning to introduce a valve for use in medical implants. Variable costs per unit are \$250. The maximum price MM could charge is \$325. Fixed costs associated with this product are \$20,000,000. Depreciation expense of \$2,500,000 are included in fixed costs. The worst case forecast calls for sales of 240,000 valves, the best case for \$290,400. Will MM reach cash break-even in the worst case scenario?

- A) Sales will fall short of cash break even by \$8,666,667.
- B) The product will exactly break even.
- C) Sales will fall short of cash break even by \$2,000,025.
- D) Sales will exceed cash break even by \$2,166,667.

Answer: <https://biology-forums.com/index.php?topic=641640>

Question 641

If you are willing to pay \$1,392.05 for a 15-year, \$1,000 par value bond that pays 10% interest semiannually, what is your expected rate of return?

Answer: <https://biology-forums.com/index.php?topic=641170>

Question 642

Owners of common stock are the owners of the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640496>

Question 643

The rate of return on a bond can be higher or lower than the coupon rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641115>

Question 644

A reasonable conclusion about dividend policy is that management should avoid surprising investors when it comes to the firm's dividend decision.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642009>

Question 645

Which of the following statements about bonds is true?

- A) If market interest rates are below a bond's coupon interest rate, then the bond will sell above its par value.
- B) Long-term bonds have less interest rate risk than do short-term bonds.
- C) Bond prices move in the same direction as market interest rates.
- D) As the maturity date of a bond approaches, the market value of a bond will become more volatile.

Answer: <https://biology-forums.com/index.php?topic=641189>

Question 646

Which of the following should be excluded from a firm's capital structure?

- A) Common equity
- B) Non-interest bearing debt
- C) Long-term debt
- D) Short-term bank notes

Answer: <https://biology-forums.com/index.php?topic=641839>

Question 647

When comparing annuity due to ordinary annuities, annuity due annuities will have higher

- A) present values.
- B) annuity payments.
- C) future values.
- D) both A and C.
- E) all of the above.

Answer: <https://biology-forums.com/index.php?topic=640817>

Question 648

Net present value is suitable for comparing projects with unequal lives.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641368>

Question 649

Bonds with ratings lower than Standard & Poor's BBB or Moody's Baa are classified as

- A) in default.
- B) investment grade.
- C) not investment grade.
- D) medium quality.

Answer: <https://biology-forums.com/index.php?topic=641109>

Question 650

XYZ Corporation has 400,000 shares of common stock outstanding, a P/E ratio of 8, and \$500,000 available for common stockholders. The board of directors has just voted a 3-2 stock split.

- a. If you had 100 shares of stock before the split, how many shares will you have after the split?
- b. What was the total value of your investment in XYZ stock before the split?
- c. What should be the total value of your investment in XYZ stock after the split?
- d. In view of your answers to (b) and (c) above, why would a firm's management want to have a stock split?

Answer: <https://biology-forums.com/index.php?topic=642023>

Question 651

Which of the following statements is FALSE?

- A) The calculation of the accounts receivable average collection period (ACP) would generally produce a more realistic assessment of how a firm is managing its accounts receivable if the analyst were to calculate the ACP for each month and average the results, than if the analyst were to solely use the fiscal year-end accounts receivable value.
- B) If an analyst were to compare the inventory turnover of one firm to that of another, the comparison can be distorted if the two firms use different

methods of valuing ending inventory.

C) Assume that two firms are in the same industry and one reports a higher debt ratio than the other. We can safely say that the firm that has the highest debt ratio is the riskier of the two firms.

D) A firm that has a current ratio that is significantly above the industry norm will, as a direct consequence, also have a significantly better return on assets than if its current ratio was below the industry norm.

Answer: <https://biology-forums.com/index.php?topic=640711>

Question 652

Accounts payable is considered a

A) spontaneous liability.

B) temporary financing source.

C) permanent financing source.

D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=642313>

Question 653

In a sole proprietorship, the owner is personally responsible without limitation for the liabilities incurred.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640404>

Question 654

The introduction of a new product at Elia Pharmaceuticals will require a \$450,000 increase in inventory, a \$730,000 increase in Accounts Receivable, and a \$180,000 increase in Accounts Payable. Introduction of the product will also require a \$700,000 expenditure for advertising. The increase in net working capital required for the introduction of this product is

A) \$1,180,000.

B) \$1,000,000.

C) \$1,360,000.

D) \$1,700,000.

Answer: <https://biology-forums.com/index.php?topic=641518>

Question 655

The bid rate (also called the offer rate) is the number of units of home currency paid to a customer in exchange for their foreign currency.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642672>

Question 656

If a firm were to unexpectedly omit payment of its quarterly dividend, that firm's stock price would probably drop.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641989>

Question 657

The major advantage of the forward market is risk reduction.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642688>

Question 658

Madison was hired to design and decorate the offices of a large pharmaceutical company. She accidentally read a report indicating that a new drug had just been approved by the Food and Drug administration. She immediately bought the company's stock which doubled in price over the following week. This outcome is inconsistent with

A) the weak-form efficient market hypothesis.

B) the semi-strong form efficient market hypothesis.

C) the strong form efficient market hypothesis. Her action was probably illegal.

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=640980>

Question 659

The percentage of debt in the firm's capital structure should be adjusted by multiplying by 1 minus the firm's marginal tax rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641710>

Question 660

A balance sheet is a statement of the financial position of the firm on a given date, including its asset holdings, liabilities, and equity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640572>

Question 661

When calculating the weighted average cost of capital, which of the following has to be adjusted for taxes?

- A) Common stock
- B) Retained earnings
- C) Debt
- D) Preferred stock

Answer: <https://biology-forums.com/index.php?topic=641719>

Question 662

What is the general rule that firms should follow when deciding how much risk to assume?

Answer: <https://biology-forums.com/index.php?topic=642858>

Question 663

Which of the following is the most likely reason for a corporation to cut its dividend?

- A) To keep the firm's price within its optimal range.
- B) Because the company believes that existing dividend levels are no longer sustainable.
- C) To make the firm more attractive to growth oriented investors.
- D) To shelter the shareholders from double taxation.

Answer: <https://biology-forums.com/index.php?topic=641951>

Question 664

For the most part, there has been a positive relation between risk and return historically.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641016>

Question 665

Hudson Valley Distributors wants to be sure it has 10,000 cases of Beaujolais Nouveau to sell next November. In January, they enter into an agreement to buy the wine at a price of 34.62 euro per case. Payment will be due at the end of November. They expect to sell the wine to restaurants and retailers for \$63 per case. If Hudson Valley does not hedge its position and the exchange rate in November is \$1.30 /euro, what is the gross profit on the wine? (Round to the nearest dollar.)

- A) \$179,940
- B) (\$179,940)
- C) \$363,692
- D) \$283,800

Answer: <https://biology-forums.com/index.php?topic=642912>

Question 666

A budget is a forecast of future events.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642271>

Question 667

Cash break-even NPV does not include depreciation as an expense.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641653>

Question 668

You are going to pay \$800 into an account at the beginning of each of 20 years. The account will then be left to compound for an additional 20 years. At the end of the 41st year you will begin receiving a perpetuity from the account. If the account pays 14%, how much will you receive each year from the perpetuity (round to nearest \$1.00)?

- A) \$140,112
- B) \$150,360
- C) \$159,728

D) \$182,090

Answer: <https://biology-forums.com/index.php?topic=640892>

Question 669

Apple stock is now selling for \$115 per share. The P/E ratio based on current earnings is 13.77 and the P/E ratio based on expected earnings is 12.29. The expected growth rate in Apples earnings must be

- A) 1.48%.
- B) 12.1%.
- C) -10.3%.
- D) 10.3%.

Answer: <https://biology-forums.com/index.php?topic=641286>

Question 670

Boulangerie Bouffard expects to sell 1 million croissants next year for \$1.25 each. Variable cost of a croissant is \$0.75. Fixed costs are \$150,000, depreciation \$200,000 and the tax rate is 25%. If the bakery can increase the price of a croissant to \$1.50 and all other variables remain the same, free cash flow will increase by

- A) \$37,500.
- B) \$150,000.
- C) \$187,500.
- D) \$250,000.

Answer: <https://biology-forums.com/index.php?topic=641601>

Question 671

Forward rates are quoted

- A) in direct form.
- B) in indirect form.
- C) at a premium or discount.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642575>

Question 672

The after-tax cost of common stock is

- A) 14.67%.
- B) 13.23%.
- C) 12.41%.
- D) 11.65%.

Answer: <https://biology-forums.com/index.php?topic=641750>

Question 673

Which of the following parties would perform an external financial analysis?

- A) a firm's compensation committee
- B) a financial analyst forecasting the next period's borrowing needs
- C) a firm's creditors
- D) a CFO comparing the performance of the firm's various divisions

Answer: <https://biology-forums.com/index.php?topic=640587>

Question 674

For these types of organization, no distinction is made between business and personal assets.

- A) Sole proprietorship
- B) General partnership
- C) Limited partnership
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=640387>

Question 675

Bonds cannot be worth less than their book value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641190>

Question 676

Which of the following financial ratios is the best measure of how effectively a firm's management is serving its stockholders?

- A) Current ratio
- B) Debt ratio
- C) ACP
- D) Return on equity

Answer: <https://biology-forums.com/index.php?topic=640678>

Question 677

Famous Danish Corp. is replacing an old cookie cutter with a new one. The cookie cutter is being sold for \$25,000 and it has a net book value of \$75,000. Assume that Famous Danish is in the 34% income tax bracket. How much will Famous Danish net from the sale?

- A) \$61,000
- B) \$55,000
- C) \$75,000
- D) \$42,000

Answer: <https://biology-forums.com/index.php?topic=641505>

Question 678

The marginal tax rate would equal the average tax rate for firms with earnings less than \$50,000 or more than \$18,333,333.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640553>

Question 679

Over the long term, mutual fund fee and expenses can have a significant impact on returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640480>

Question 680

Holding all other variables constant, which of the following could cause a firm's current ratio to decrease from 3.0 to 2.5? An increase in

- A) inventory
- B) long-term debt
- C) accounts receivable
- D) accounts payable

Answer: <https://biology-forums.com/index.php?topic=640671>

Question 681

You are considering the purchase of XYZ Company's common stock which will pay a \$1.00 per share dividend one year from the date of purchase. The dividend is expected to grow at the rate of 4% per year. If the appropriate discount rate for this investment is 14%, what is the price of one share of this stock?

- A) \$7.14
- B) \$10.00
- C) \$25.00
- D) Cannot be determined without maturity date

Answer: <https://biology-forums.com/index.php?topic=640893>

Question 682

Which of the following statements is true?

- A) The forward rate is the same as the spot rate that will prevail in the future.
- B) Only the forward rate is known.
- C) An indirect quote is the exchange rate that indicates the number of units of the home currency required to buy one unit of foreign currency.
- D) Both B and C.

Answer: <https://biology-forums.com/index.php?topic=642719>

Question 683

A perpetuity is an investment that continues forever but pays a different dollar amount each year.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640899>

Question 684

You believe WSU stock will pay dividends of \$1.00, \$1.25, and \$1.50 at the end of each of the next 3 years. Immediately after receiving the third dividend, you will sell the stock for \$28.50. If the appropriate discount rate is 12%, you should be willing to pay \$20.75 for this stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640922>

Question 685

Noblesville Auto Supply Company's stock is trading ex-dividend at \$5 per share. The company just paid a 10% stock dividend. The P/E ratio for the stock is 10. What was the price of the stock prior to trading ex-dividend?

Answer: <https://biology-forums.com/index.php?topic=642118>

Question 686

If investor's expect a 15% rate of return on their investment, they will be indifferent between a \$1.00 dividend received immediately or

- A) \$1.15 received at the end of the year.
- B) \$1.00 received later.
- C) \$0.87 received at the end of the year.
- D) \$1.00 increase in the stock price a year later.

Answer: <https://biology-forums.com/index.php?topic=642069>

Question 687

If you have \$20,000 in an account earning 8% annually, what constant amount could you withdraw each year and have nothing remaining at the end of five years?

- A) \$3,525.62
- B) \$5,008.76
- C) \$3,408.88
- D) \$2,465.78

Answer: <https://biology-forums.com/index.php?topic=640812>

Question 688

Other things held constant, an increase in _____ will decrease the current ratio. Assume an initial current ratio greater than 1.0.

- A) accruals
- B) common stock
- C) average collection period
- D) cash

Answer: <https://biology-forums.com/index.php?topic=640645>

Question 689

The Tradeoff Theory of capital structure theory indicates that

- A) the tax shield on debt positively affects firm value, indicating that there is some benefit to financial leverage as opposed to an all-equity capitalization.
- B) the higher the firm's financial leverage, the higher the probability the firm will be unable to meet the financial obligations included in its debt contracts, which could ultimately lead to firm failure.
- C) there is a range of capital structures, rather than a single capital structure, that is optimal.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641872>

Question 690

An increase in _____ will increase the cost of common equity.

- A) the expected growth rate of dividends
- B) the risk-free rate
- C) the dividend
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=641722>

Question 691

Variable cost for Light.com's fluorescent tubes is \$12.50, the tubes are sold over the internet to businesses and organizations for \$20.00 each. Fixed costs are \$7,500,000. \$500,000 in depreciation expense is included in fixed costs. What is the cash break-even quantity for the fluorescent tubes?

- A) 933,333

- B) 1,000,000
- C) 375,000
- D) 1,066,667

Answer: <https://biology-forums.com/index.php?topic=641635>

Question 692

Which of the following techniques might be useful in situations where mutually exclusive projects have unequal lives?

- A) IRR
- B) Equivalent annual cost (EAC).
- C) PI
- D) Discounted payback

Answer: <https://biology-forums.com/index.php?topic=641437>

Question 693

Shorty Jones wants to buy a one-way bus ticket to Mule-Snort, Pennsylvania. The ticket costs \$142, but Mr. Jones has only \$80. If Shorty puts the money in an account that pays 9% interest compounded monthly, how many months must Shorty wait until he has \$142 (round to the nearest month)?

- A) 73 months
- B) 75 months
- C) 77 months
- D) 79 months

Answer: <https://biology-forums.com/index.php?topic=640747>

Question 694

What is the expected net operating profit after tax (NOPAT) for the worst case scenario?

- A) \$300,000
- B) \$223,500
- C) \$174,000
- D) \$124,500

Answer: <https://biology-forums.com/index.php?topic=641603>

Question 695

Common stock represents a claim on residual income.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641262>

Question 696

Hudson Valley Distributors wants to be sure it has 10,000 cases of Beaujolais Nouveau to sell next November. In January, they enter into an agreement to buy the wine at a price of 34.62 euros to the case. Payment will be due at the end of November. They expect to sell the wine to restaurants and retailers for \$63 per case. Hudson Valley has hedged its foreign exchange risk by entering into a forward contract to purchase euros in November at \$1.30/euro. If the spot exchange rate at the end of November is \$1.35/euro, Hudson Valley's gross profit will be

- A) \$283,800.
- B) \$138,415.
- C) \$162,630.
- D) \$179,940.

Answer: <https://biology-forums.com/index.php?topic=642916>

Question 697

If a limited partner dies or leaves the business, the partnership is dissolved and a new partnership must be formed.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640403>

Question 698

Balance sheet and other accounts for GPA are listed below in alphabetical order. Use these accounts to construct GPA's balance sheet for 2016. All balance sheet accounts are shown, but some accounts will not be used. All amounts are in millions of dollars.

Accounts payable \$1900
Accounts receivable \$661
Cash \$1,000
Common stock \$2,000
EBIT \$1,968

Interest expense \$8.00
Inventories \$1,620
Long-term debt \$890
Net plant & equipment \$2,563
Other current assets \$645
Other long-term assets \$576
Retained earnings \$2,080
Short-term debt \$195
Taxes, \$778

Answer: <https://biology-forums.com/index.php?topic=640578>

Question 699

Which of the following is a limitation related to the usage of ratios when reviewing a firm's performance?

- A) Ratios reveal differences in policy and performance between years.
- B) Ratios can be used to compare firms that are in the same industry if one firm's sales are higher than another firm's.
- C) Financial ratios are designed for the use of creditors, not for managers.
- D) Different accounting practices between firms can distort comparisons.

Answer: <https://biology-forums.com/index.php?topic=640712>

Question 700

An investment is expected to yield \$300 in three years, \$500 in five years, and \$300 in seven years. What is the present value of this investment if our opportunity rate is 5%?

- A) \$735
- B) \$865
- C) \$885
- D) \$900

Answer: <https://biology-forums.com/index.php?topic=640907>

Question 701

If your portfolio consists of 20% RJH (expected return 16%) 30% PAV (expected return -2%), and 50% MB (expected return 8%), what is the expected rate of return on the portfolio?

- A) 7.8%
- B) 7.3%
- C) 6.6%
- D) 8.7%

Answer: <https://biology-forums.com/index.php?topic=640993>

Question 702

Assume that Hercules Manufacturing has sales of \$25 million and current assets of \$5 million. The corporation utilizes the percent-of-sales method of financial forecasting. If Hercules is expected to generate sales of \$31 million next year, what will the firm's investment in current assets be?

- A) \$8.3 million
- B) \$4.0 million
- C) \$6.2 million
- D) \$5.0 million

Answer: <https://biology-forums.com/index.php?topic=642187>

Question 703

When a corporation sells common stock to investors, the amount is added to common equity on the balance sheet.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640574>

Question 704

When performing time value of money computations with a financial calculator or EXCEL, PV and FV must have opposite signs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640768>

Question 705

With taxes, but in the absence of financial distress costs, the optimal capital structure would be

- A) 100% equity.
- B) 50% debt, 50% equity.

C) 100% debt.

D) completely insensitive to the mix of debt and equity.

Answer: <https://biology-forums.com/index.php?topic=641876>

Question 706

If there is a 20% chance we will get a 16% return, a 30% chance of getting a 14% return, a 40% chance of getting a 12% return, and a 10% chance of getting an 8% return, what is the expected rate of return?

A) 12%

B) 13%

C) 14%

D) 15%

Answer: <https://biology-forums.com/index.php?topic=640935>

Question 707

Other things the same, the use of debt financing reduces the firm's total tax bill, resulting in a higher total market value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641883>

Question 708

There are more companies listed on NASDAQ than are listed on the New York Stock Exchange.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640501>

Question 709

If an investor had a choice of receiving \$1,000 today, or \$1,000 in five years, which would the average investor prefer?

A) \$1,000 in five years because they are not good at saving money.

B) \$1,000 today because it will be worth more than \$1,000 received in five years.

C) \$1,000 in five years because it will be worth more than \$1,000 received today.

D) Investors would be indifferent to when they would receive the \$1,000.

E) None of the above.

Answer: <https://biology-forums.com/index.php?topic=640439>

Question 710

A direct quote in Bombay tells one how many British pounds can buy one Indian rupee.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642670>

Question 711

Groups of investors who prefer one distribution method over another are known as

A) pressure groups.

B) return chasers.

C) dividend clienteles.

D) retirees.

Answer: <https://biology-forums.com/index.php?topic=642142>

Question 712

The Blackstone River Textiles Company will borrow \$50 million for 6 months days from Woonsocket Bank. The bank will charge Blackstone 4.5 % on a discounted basis. What is the dollar amount of interest Stoney River will need to pay and how much of the loan will Blackstone actually be able to use?

A) \$1,125,000 , \$48,875,000

B) \$1,125,000 , \$50,000,000

C) \$2,250,000 , \$47,750,000

D) \$1,178,009 , \$50,000,000

Answer: <https://biology-forums.com/index.php?topic=642450>

Question 713

Caribe's common stock sells for \$41, and dividends paid last year were \$1.18. The dividends and earnings per share are predicted to have a 5% growth rate. What is the cost of common equity for Caribe?

Answer: <https://biology-forums.com/index.php?topic=641771>

Question 714

Which of the following will reduce the liquidity of a firm? An increase in

- A) short-term notes payable.
- B) accounts payable.
- C) current assets.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=642286>

Question 715

Capital leasing arrangements are most likely to be mutually beneficial to lessor and lessee when the lessor is taxed at a higher rate and can issue debt at a lower rate than the lessee.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641935>

Question 716

Which of the following circumstances might contribute to the usefulness of the discounted payback method?

- A) uncertain project life
- B) multiple changes in the signs of cash flows
- C) mutually exclusive projects
- D) capital rationing

Answer: <https://biology-forums.com/index.php?topic=641413>

Question 717

Use Bird Industries' financial statements to determine Bird's operating profit margin for 2017.

- A) 21%
- B) 4.8%
- C) 4.2%
- D) 2.4%

Answer: <https://biology-forums.com/index.php?topic=640532>

Question 718

Project Full Moon has an initial outlay of \$30,000, followed by positive cash flows of \$10,000 in year 1, \$15,000 in year 2, and \$15,000 in year 3. The project should be accepted if the required rate of return is

- A) greater than 0.
- B) less than 14.6%.
- C) less than 16.25%.
- D) greater than 12%.

Answer: <https://biology-forums.com/index.php?topic=641366>

Question 719

What is the expected NPV of the project if the option to expand is considered?

- A) \$355,542
- B) \$671,545
- C) \$236,924
- D) \$711,084

Answer: <https://biology-forums.com/index.php?topic=641672>

Question 720

The asked rate is the price a customer will receive from a foreign currency trader when selling a foreign currency.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642660>

Question 721

Advantages to borrowing in the private market include

- A) less restrictive covenants.
- B) reduced initial costs.
- C) lower interest costs.
- D) avoiding future SEC registration.

Answer: <https://biology-forums.com/index.php?topic=641102>

Question 722

Edison Power and Light has an outstanding issue of cumulative preferred stock with an annual fixed dividend of \$2.00 per share. It has not paid the preferred dividend for the last 3 years, but intends to pay a dividend on the common stock in the coming year. Before Edison can pay a dividend on the common stock

- A) preferred shareholders may cast all their votes for a single director.
- B) preferred shareholders must receive dividends totaling \$8.00 per share.
- C) preferred shareholders must receive \$2.00 per share.
- D) will not necessarily receive any dividend.

Answer: <https://biology-forums.com/index.php?topic=641301>

Question 723

What will the dollar amount be if the interest is compounded semiannually for those four years?

- A) \$3,100
- B) \$3,188
- C) \$3,240
- D) \$3,290

Answer: <https://biology-forums.com/index.php?topic=640751>

Question 724

If the worst case scenario for a project results in an NPV of zero, the project should be accepted.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641654>

Question 725

The Oviedo Thespians are planning to present performances of their Florida Revue on 2 consecutive nights in January. It will cost them \$5,000 per night for theater rental, event insurance and professional musicians. The theater will also take 10% of gross ticket sales. How many tickets must they sell at \$10.00 per ticket to raise \$1,000 for their organization?

- A) 1000 tickets
- B) 1,112 tickets
- C) 1,223 tickets
- D) There is not enough information

Answer: <https://biology-forums.com/index.php?topic=641630>

Question 726

The clientele effect suggests that a firm's dividend policy will be affected by the needs of the shareholders.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642101>

Question 727

An investor is contemplating the purchase of common stock at the beginning of this year and to hold the stock for one year. The investor expects the year-end dividend to be \$2.00 and expects a year-end price for the stock of \$40. If this investor's required rate of return is 10%, then the value of the stock to this investor is

- A) \$36.36.
- B) \$38.18.
- C) \$33.06.
- D) \$34.88.

Answer: <https://biology-forums.com/index.php?topic=641244>

Question 728

In 2016, ABC's fixed asset turnover is

- A) 2.78.
- B) 5.0.
- C) 4.6.
- D) 4.8.

Answer: <https://biology-forums.com/index.php?topic=640663>

Question 729

Green Company's common stock is currently selling at \$24.00 per share. The company recently paid dividends of \$1.92 per share and projects growth at a rate of 4%. At this rate, what is the stock's expected rate of return?

- A) 4.08%
- B) 8.00%
- C) 12.00%
- D) 8.80%

Answer: <https://biology-forums.com/index.php?topic=641228>

Question 730

Even though an investor expects a positive rate of return, it is possible that the actual return will be negative.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640944>

Question 731

Miller Motorworks has a \$1,000 par value, 8% annual coupon bond with interest payable semiannually with a remaining term of 15 years. The annual market yield on similar bonds is 6%. This bond will at a discount from par.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641150>

Question 732

The question "Did the common stockholders receive an adequate return on their investment?" is answered through the use of

- A) liquidity ratios.
- B) profitability ratios.
- C) coverage ratios.
- D) leverage ratios.

Answer: <https://biology-forums.com/index.php?topic=640607>

Question 733

The interest rate in the U.S. is 4%, in Switzerland it is 3%. The spot rate is 1.0232 USD to the Swiss franc. A U.S. based hotel chain needs to project forward exchange rates for the next five years. Complete the table below.

Year	Spot Rate	x rate differential	Forward Rate
0			
1			
2			
3			
4			
5			

Answer: <https://biology-forums.com/index.php?topic=642816>

Question 734

Kahnemann Kookies is evaluating the replacement of an old oven with a new, more energy efficient model. The old oven cost \$50,000, is 5 years old and is being depreciated over a life of 10 years to a value of \$0.00. The new oven costs \$60,000 and will be depreciated over 5 years with no salvage value. Kahnemann uses straight line depreciation, its tax rate is 40%. If the old oven is sold for \$10,000, compute the net cost of the new oven.

Answer: <https://biology-forums.com/index.php?topic=641565>

Question 735

WKW, Inc. is analyzing a project that requires an initial investment of \$10,000, followed by cash inflows of \$1,000 in Year 1, \$4,000 in Year 2, and \$15,000 in Year 3. The cost of capital is 10%. What is the profitability index of the project?

- A) 1.04
- B) 1.55
- C) 1.78
- D) 1.97

Answer: <https://biology-forums.com/index.php?topic=641402>

Question 736

Which of the following would increase the net working capital for a project? An increase in

- A) accounts receivable.
- B) fixed assets.
- C) accounts payable.
- D) common stock.

Answer: <https://biology-forums.com/index.php?topic=641488>

Question 737

Allston-Brighton Corp. has total assets of \$10 million, total liabilities of \$4 million, of which \$1 million are non-interest bearing. Interest expense was \$180,000. Earnings before interest and taxes were \$2.5 million. Depreciation was \$1.5 million. Compute the following ratios: Debt ratio, Interest-bearing debt ratio, Times interest earned ratio, and EBITDA coverage ratio.

Answer: <https://biology-forums.com/index.php?topic=641941>

Question 738

Ahmad bought call options on Home Depot with a strike price of \$130. The option premium was \$6.68. Just before the contract expired, Home Depot stock was \$135 per share. Ahmad

- A) made a profit of \$1.68 per share.
- B) lost \$6.68 per share because the option would not be exercised.
- C) made a profit of \$6.68 per share.
- D) lost \$1.68 per share.

Answer: <https://biology-forums.com/index.php?topic=642959>

Question 739

After a stock split of 2-1, each investor will have one-half of the percentage ownership in the firm that he had before the split.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642003>

Question 740

If markets are efficient, stock prices go up when there is positive information about a company, and go down when there is negative information about the company.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640981>

Question 741

The theory that managers may prefer internal sources of funds to the lowest cost source of funds is known as

- A) the Modigliani and Miller Proposition.
- B) tradeoff theory.
- C) financial stress avoidance theory.
- D) pecking order theory.

Answer: <https://biology-forums.com/index.php?topic=641871>

Question 742

Pro forma financial statements are a required part of the firm's tax returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642165>

Question 743

If you put \$10 in a savings account at the beginning of each year for 11 years, how much money will be in the account at the end of the 11th year? Assume that the account earns 11%, and round to the nearest \$1.00.

- A) \$217
- B) \$241
- C) \$68.89
- D) \$76.47

Answer: <https://biology-forums.com/index.php?topic=640832>

Question 744

A timeline typically represents cash flows as an exponential growth curve.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640727>

Question 745

Briefly identify and describe some important uses of a firm's weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=641701>

Question 746

The present value of a single future sum

- A) increases as the number of discount periods increases.
- B) is generally larger than the future sum.
- C) depends upon the number of discount periods.
- D) increases as the discount rate increases.

Answer: <https://biology-forums.com/index.php?topic=640775>

Question 747

Accounting break-even analysis solves for the level of sales that will result in

- A) IRR=Cost of Capital.
- B) net income = \$0.00.
- C) Free cash flow = \$0.00.
- D) NPV = \$0.00.

Answer: <https://biology-forums.com/index.php?topic=641631>

Question 748

The U.R. Bloom Corporation established a line of credit with a local bank. The maximum amount that can be borrowed under the terms of the agreement is \$125,000 at a rate of 5%. A compensating balance averaging 10% of the loan is required. If the firm needs \$100,000 for six months, what is the dollar cost of the loan and the annual percentage rate (APR)?

Answer: <https://biology-forums.com/index.php?topic=642509>

Question 749

Annika has purchased put options on 1000 shares of Amazon stock with a striking price of \$270 per share. The option premium was \$6.00 per share.

- a. Compute Annika's profit or loss if the market value of Amazon's stock is \$280 at expiration.
- b. Compute Annika's profit or loss if the market value of Amazon's stock is \$260 at expiration.
- c. Compute Annika's profit or loss if the market value of Amazon's stock is \$272 at expiration.

Answer: <https://biology-forums.com/index.php?topic=643039>

Question 750

The option to abandon a project before the end of its forecasted life may increase its NPV.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641675>

Question 751

A friend plans to buy a big-screen TV/entertainment system and can afford to set aside \$1,320 toward the purchase today. If your friend can earn 5.0%, compounded yearly, how much can your friend spend in four years on the purchase? Round off to the nearest \$1.

- A) \$1,444
- B) \$1,604
- C) \$1,764
- D) \$1,283

Answer: <https://biology-forums.com/index.php?topic=640740>

Question 752

We compute the profitability index of a capital-budgeting proposal by

- A) multiplying the IRR by the cost of capital.
- B) dividing the present value of the annual after-tax cash flows by the cost of capital.
- C) dividing the present value of the annual after-tax cash flows by the cost of the project.
- D) multiplying the cash inflow by the IRR.

Answer: <https://biology-forums.com/index.php?topic=641414>

Question 753

Which of the following statements is true?

- A) The future value of an annuity would be greater if funds are invested at the beginning of each period instead of at the end of each period.
- B) An annuity is a series of equal payments that are made, or received, forever.
- C) The effective annual rate (APR) of a loan is higher the less frequently payments are made.
- D) The future value of an annuity would be greater if funds are invested at the end of each period rather than at the beginning of each period.

Answer: <https://biology-forums.com/index.php?topic=640869>

Question 754

Company managers strive to gradually increase dividend series over the long-term future.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642146>

Question 755

Jordan bought a bond that paid 4% interest for \$675.56. Ten years later, he received \$1,000. This bond was

- A) a discount bond.
- B) a convertible bond.
- C) a self-amortizing bond.
- D) a zero coupon bond.

Answer: <https://biology-forums.com/index.php?topic=641204>

Question 756

Which of the following are reasons to analyze the risk of capital projects?

- A) The people who propose projects have a vested interest in getting them accepted.
- B) Cash flows can rarely be estimated with certainty.
- C) Many of the variables in capital budgeting analysis are highly sensitive to changes in economic conditions.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=641569>

Question 757

If a currency's forward price in U. S. dollars is higher than the spot price, interest rates are higher in the foreign country than they are in the U.S.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642751>

Question 758

You are going to invest all of your funds in one of three projects with the following distribution of possible returns:

Project 1 Project 2

Standard Deviation 12% Standard Deviation 19.5%

Probability Return Probability Return

50% Chance 20% 30% Chance 30%

50% Chance -4% 40% Chance 10%

30% Chance -20%

Project 3

Standard Deviation 12%

Probability Return

10% Chance 30%

40% Chance 15%

40% Chance 10%

10% Chance -21%

If you are a risk-averse investor, which one should you choose?

- A) Project 1
- B) Project 2
- C) Project 3
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=641077>

Question 759

Which of the following motivates corporations to split their common stock?

- A) To keep the price of the firm's common stock within an optimum price range
- B) To increase retained earnings
- C) To reallocate capital to shareholders
- D) To narrow ownership of the firm.

Answer: <https://biology-forums.com/index.php?topic=641953>

Question 760

Depreciation (600)

EBIT \$4,000

Interest expense (500)
EBT \$3,500
Taxes (1,500)
Net Income \$2,000

25) Use Bird's financial statements to determine the total amount of Bird Industries' common stock dividend for 2017.

- A) \$800
- B) \$2,300
- C) \$2,000
- D) Cannot be determined with available information

Answer: <https://biology-forums.com/index.php?topic=640531>

Question 761

An increase in _____ would increase a firm's current ratio and net working capital.

- A) notes payable
- B) inventories
- C) cash
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=642282>

Question 762

To be conservative, capital budgeting analysis assumes that projects cannot add sales to existing lines of business.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641473>

Question 763

Colton Corp. has current assets of \$4.5 million. The current ratio is 1.25 and the quick ratio is 0.75. What is the amount of Colton's current liabilities (in millions)?

- A) \$4.5
- B) \$1.8
- C) \$2.4
- D) \$2.9
- E) \$3.6

Answer: <https://biology-forums.com/index.php?topic=640679>

Question 764

Assume that you are starting a business. Further assume that the business is expected to grow very quickly and a great deal of capital will be needed soon. What type of business organization would you choose?

- A) Corporation
- B) General Partnership
- C) Limited liability company
- D) Limited partnership

Answer: <https://biology-forums.com/index.php?topic=640381>

Question 765

How much would an investor be willing to pay today for an investment that returns \$1,000 every year at year-end for five years if he wants to earn a 10% annual return on the investment?

- A) \$1,000
- B) \$3,791
- C) \$5,000
- D) \$7,700

Answer: <https://biology-forums.com/index.php?topic=640856>

Question 766

The major difference between the current ratio and net working is?

- A) Interpretation of the current ratio does not depend on the firm's industry.
- B) The current ratio is more stable throughout the year.
- C) They are calculated using different variables.
- D) Interpretation of the current ratio does not depend on firm size.

Answer: <https://biology-forums.com/index.php?topic=642284>

Question 767

The primary purpose of a cash budget is to

- A) determine the level of investment in current and fixed assets.
- B) determine accounts payable.
- C) provide a detailed plan of future cash flows.
- D) determine the estimated income tax for the year.

Answer: <https://biology-forums.com/index.php?topic=642256>

Question 768

Ortny Industries has an accounts receivable turnover ratio of 4.3. If Ortny has an accounts receivable balance of \$90,000, what is Ortny's average daily credit sales?

- A) \$387,000
- B) \$1,548
- C) \$1,060
- D) \$3,521

Answer: <https://biology-forums.com/index.php?topic=640633>

Question 769

The sensitivity of a bond's value to changing interest rates depends on both the bond's time to maturity and its pattern of cash flows. True / False?

Answer: <https://biology-forums.com/index.php?topic=641167>

Question 770

Tully's Tool and Die has the following projections for Year 1 of a capital budgeting project.

Year 1 Incremental Projections:

- Sales \$400,000
- Variable Costs \$240,000
- Fixed Costs \$80,000
- Depreciation Expense \$40,000
- Tax Rate 35%

Calculate the operating cash flow for Year 1.

- A) \$26,000
- B) \$66,000
- C) \$40,000
- D) \$38,200

Answer: <https://biology-forums.com/index.php?topic=641514>

Question 771

When charting a project's NPV profile, the curve will cross the horizontal axis at

- A) the project's break-even discount rate.
- B) at the project's internal rate of return (IRR).
- C) when NPV=0.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641382>

Question 772

Determine the rate of return on a preferred stock that costs \$50 and pays a \$6 per share dividend.

Answer: <https://biology-forums.com/index.php?topic=641326>

Question 773

The GAP's most recent earnings per share were \$1.75. Analysts forecast next year's earnings per share at \$1.88. If the appropriate P/E ratio is 15, a share of GAP stock should be valued at

- A) \$28.20.
- B) \$26.25.
- C) \$27.23.
- D) \$8.57.

Answer: <https://biology-forums.com/index.php?topic=641280>

Question 774

An important value driver for an automobile dealership would be

- A) depreciation.
- B) inventory turnover.
- C) tax rates.
- D) debt to equity ratios.

Answer: <https://biology-forums.com/index.php?topic=641586>

Question 775

You are considering the purchase of Miller Manufacturing, Inc.'s common stock. The stock is selling for \$21.00 per share. The next dividend is expected to be \$2.10, and you expect the dividend to keep growing at a constant rate. If the stock is returning 15%, calculate the growth rate of dividends.

- A) 3%
- B) 5%
- C) 8%
- D) 10%

Answer: <https://biology-forums.com/index.php?topic=641250>

Question 776

Trevor Co.'s future earnings for the next four years are predicted below. Assuming there are 500,000 shares outstanding, what will the yearly dividend per share be if the dividend policy is as follows?

- a. A constant payout ratio of 40%
- b. Stable dollar dividend targeted at 40% of the average earnings over the four-year period
- c. Small, regular dividend of \$0.75 plus a year-end extra of 40% of profits exceeding \$1 million

Trevor Co.
Year 1 \$ 900,000
Year 2 1,200,000
Year 3 850,000
Year 4 1,350,000

Answer: <https://biology-forums.com/index.php?topic=642119>

Question 777

The effective annual rate increases when the _____ increases.

- A) number of compounding periods in a year
- B) number of years invested
- C) quoted rate
- D) both A and C

Answer: <https://biology-forums.com/index.php?topic=640802>

Question 778

How much money must you pay into an account at the beginning of each of 30 years in order to have \$10,000 at the end of the 30th year? Assume that the account pays 11% per annum, and round to the nearest \$1.

- A) \$39
- B) \$45
- C) \$50
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640834>

Question 779

Financial intermediaries help bring savers and borrowers together.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640461>

Question 780

Banner's projected accounts payable balance for 2018 is

- A) \$160,000.
- B) \$120,000.
- C) \$200,000.
- D) \$300,000.

Answer: <https://biology-forums.com/index.php?topic=642208>

Question 781

The EBIT-EPS indifference point, sometimes called the break-even point, identifies the optimal range of financial leverage regardless of the financing plan chosen by the financial manager.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641932>

Question 782

_____ is a risk analysis technique in which the best- and worst-case net present values are compared with the project's expected net present value.

- A) Project standing alone risk
- B) Decision tree analysis
- C) Scenario analysis
- D) Pure play method

Answer: <https://biology-forums.com/index.php?topic=641592>

Question 783

In a growing business, negative cash flow from investing activities is normal.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640584>

Question 784

You are considering investing in a firm that has the following possible outcomes:

Economic boom: probability of 25%; return of 25%

Economic growth: probability of 60%; return of 15%

Economic decline: probability of 15%; return of -5%

What is the expected rate of return on the investment?

- A) 15.0%
- B) 11.7%
- C) 14.5%
- D) 25.0%

Answer: <https://biology-forums.com/index.php?topic=640939>

Question 785

Which of the following is the best indicator of management's effectiveness at generating profits relative to the firm's assets?

- A) Quick ratio
- B) Fixed assets turnover
- C) Return on assets
- D) Accounts receivable turnover

Answer: <https://biology-forums.com/index.php?topic=640642>

Question 786

Reliable Metals plans to issue bonds that will mature in 20 years, will have a semi-annual coupon rate of 7%, and a Moody's rating of Aa2. Bonds of other metals companies with similar maturities and ratings currently yield an average of 6.3%.

- A) Reliable's bonds will sell at a price to yield about 6.3% because that is the investors' opportunity cost.
- B) Reliable's bonds should be priced to yield a rate close to the coupon rate.
- C) Reliable's bonds should yield more than 6.3% because they are new.
- D) Reliable's bonds should yield less than 6.3% because they are new.

Answer: <https://biology-forums.com/index.php?topic=641775>

Question 787

The George Company, Inc., has two issues of debt. Issue A has a maturity value of 8 million dollars, a coupon rate of 8%, paid annually, and is selling at par. Issue B was issued as a 15 year bond 5 years ago. Its coupon rate is 9%, paid annually. Investors demand a pre-tax return of 9.3% on this bond. The maturity value of Issue B is 6 million dollars. The George company has a marginal tax rate of 35%. What is the company's after tax cost of debt?

- A) 4.73%
- B) 5.56%
- C) 7.36%
- D) 8.47%

Answer: <https://biology-forums.com/index.php?topic=641746>

Question 788

The simulation approach provides us with

- A) a single value for the risk-adjusted net present value.
- B) an approximation of the systematic risk level.
- C) a probability distribution of the project's net present value or internal rate of return.
- D) a graphic exposition of the year-by-year sequence of possible outcomes.

Answer: <https://biology-forums.com/index.php?topic=641584>

Question 789

Briefly discuss why there is no reason to believe that the market will reward investors with additional returns for assuming unsystematic risk.

Answer: <https://biology-forums.com/index.php?topic=641065>

Question 790

Depreciation expense is a deduction from cash flow in the cash budget.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642266>

Question 791

What is the reason for computing the acid test ratio in addition to the current ratio?

- A) inventory is the most liquid of the liquid assets.
- B) a firm's inventory may not be particularly liquid.
- C) inventory is the best collateral for short term loans.
- D) compared to accounts receivable, inventory balances may be difficult to verify

Answer: <https://biology-forums.com/index.php?topic=640617>

Question 792

Is the following common stock priced correctly? If no, what is the correct price?

Price = \$26.25

Required rate of return = 13%

Dividend year 0 = \$2.00

Dividend year 1 = \$2.10

Answer: <https://biology-forums.com/index.php?topic=641270>

Question 793

An important motive for direct foreign investment is to

- A) gain entry to markets with economies growing faster than the U.S.
- B) insulate the firm from fluctuations in the value of the dollar.
- C) diversify political risks.
- D) increase a project's NPV by using lower foreign discount rates.

Answer: <https://biology-forums.com/index.php?topic=642794>

Question 794

The expected yield of a bond will be less than its yield to maturity when

- A) market interest rates are expected to rise.
- B) market interest rates are expected to fall.
- C) the expected yield of a bond cannot be lower than its yield to maturity.
- D) when the bond is purchased at a discount.

Answer: <https://biology-forums.com/index.php?topic=641146>

Question 795

Prior to establishing trade credit, the firm is required to make extended formal agreements with the company.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642488>

Question 796

As the discount rate increases, the present value of future cash flows increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640797>

Question 797

For tax purposes, interest on corporate debt is

- A) deductible for the investor, but not for the borrower.
- B) deductible for the borrower, but not for the investor.
- C) fully taxable for both the borrower and the investor.
- D) fully deductible for both the borrower and the investor.

Answer: <https://biology-forums.com/index.php?topic=641690>

Question 798

A bond's "spread" refers to the difference between its Moody's rating and its Standard & Poors rating.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641154>

Question 799

Project Sigma requires an investment of \$1 million and has a NPV of \$10. Project Delta requires an investment of \$500,000 and has a NPV of \$150,000. The projects involve unrelated new product lines. The firm can raise unlimited amounts of capital.

- A) Both projects should be accepted because they have positive NPV's.
- B) Neither project should be accepted because they might compete with one another.
- C) Only project Delta should be accepted. Alpha's NPV is too low for the investment.
- D) The company should look at other investment criteria, not just NPV.

Answer: <https://biology-forums.com/index.php?topic=641343>

Question 800

Assume that in 1990 a Toyota Corolla sold for 2,016,000 yen in Japan and \$8,200 in the U.S. The car still sells for the same amount of yen today, but the current exchange rate is 112 yen per dollar, what is the car selling for today in U.S. dollars?

- A) \$ 14,760
- B) \$18,000
- C) \$18,204
- D) \$9,184

Answer: <https://biology-forums.com/index.php?topic=642749>

Question 801

Which of the basic financial statements is best used to answer the questions "Where did the company's money come from and how was it spent over the preceding year?"

- A) Balance sheet
- B) Statement of shareholder's equity
- C) Income statement
- D) Cash flow statement

Answer: <https://biology-forums.com/index.php?topic=640512>

Question 802

When inflation rates go up, bond prices go up as well.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641216>

Question 803

Real options are traded on both the American Exchange and Chicago Board Options Exchange (CBOE).

True / False?

Answer: <https://biology-forums.com/index.php?topic=641678>

Question 804

Calculate the value of a bond that is expected to mature in 13 years with a \$1,000 face value. The interest coupon rate is 8%, and the required rate of return is 10%. Interest is paid annually.

Answer: <https://biology-forums.com/index.php?topic=641173>

Question 805

The expected rate of return implied by a given market price equals the required rate of return for investors at the margin.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641267>

Question 806

As the inventory turnover ratio decreases, the inventory conversion cycle increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642410>

Question 807

Terminal cash flows can include expenses as well as revenues.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641472>

Question 808

In 2016, ABC's inventory turnover is

- A) 23.9.
- B) 20.3.
- C) 15.5.
- D) 16.1.

Answer: <https://biology-forums.com/index.php?topic=640662>

Question 809

Reducing a firm's debt will increase its cash flow.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640585>

Question 810

Which of the following would NOT be included as a liability in a corporate balance sheet?

- A) Notes payable
- B) Accounts payable
- C) Bonds
- D) Accumulated Depreciation

Answer: <https://biology-forums.com/index.php?topic=640566>

Question 811

When calculating the cost of common equity, it is important to consider the common stock and retained earnings accounts separately.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641789>

Question 812

Arbitrage eliminates forward discounts and premiums across the markets of a single currency.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642664>

Question 813

Which two ratios would be most helpful in managing a firm's capital structure?

- A) Book Debt to Equity, Current Ratio
- B) Debt to Value Ratio and Times Interest Earned
- C) Debt to Assets, Profit Margin
- D) Payables Turnover, Return on Assets

Answer: <https://biology-forums.com/index.php?topic=641908>

Question 814

Apple Two Enterprises expects to generate sales of \$5,950,000 for fiscal 2014; sales were \$3,450,000 in fiscal 2013. Assume the following figures for the fiscal year ending 2013: cash \$70,000; accounts receivable \$250,000; inventory \$400,000; net fixed assets \$520,000; accounts payable \$235,000; and accruals \$155,000. Use the percent-of-sales method to forecast accounts payable for the fiscal year ending 2014.

- A) \$212,036
- B) \$405,290
- C) \$619,619

D) \$155,000

Answer: <https://biology-forums.com/index.php?topic=642184>

Question 815

What is meant by "real dollars" and the "real" discount rate? How can they be used to account for inflation when evaluating capital budgeting proposals?

Answer: <https://biology-forums.com/index.php?topic=641551>

Question 816

Explain why an increase in the inflation rate will cause the yield to maturity on a bond to increase.

Answer: <https://biology-forums.com/index.php?topic=641224>

Question 817

Champion Company has sales of \$20 million, total debt of \$1.5 million, and a debt ratio of 40%. What is Champion's total asset turnover?

- A) 13.33
- B) 9.11
- C) 6.55
- D) 5.33

Answer: <https://biology-forums.com/index.php?topic=640684>

Question 818

The relevant sources of risk for direct foreign investment capital budgeting decisions are the same as those faced when making domestic capital budgeting decisions.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642814>

Question 819

The ex-dividend date is _____ the holder of record date.

- A) five days before
- B) two weeks before
- C) two days before
- D) three days after

Answer: <https://biology-forums.com/index.php?topic=641943>

Question 820

A bond matures in less than 10 years.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640494>

Question 821

Which of the following is included in the numerator of the times-interest-earned ratio?

- A) Net income
- B) Net Operating Income
- C) Interest expense
- D) Gross profit

Answer: <https://biology-forums.com/index.php?topic=640620>

Question 822

The most acceptable view of capital structure, according to the text, is that the weighted average cost of capital

- A) first falls with moderate levels of leverage and then increases as a firm's leverage becomes high.
- B) does not change with leverage.
- C) increases proportionately with increases in leverage.
- D) increases with moderate amounts of leverage and then falls.

Answer: <https://biology-forums.com/index.php?topic=641879>

Question 823

Private equity firms are financial intermediaries that are not traded on public capital markets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640473>

Question 824

Ultimate control in a corporation is vested in the board of directors.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640399>

Question 825

When determining how much overhead cost to include in incremental cash flows for a capital budgeting decision, the allocation of overhead by the accounting department based on percentage of space used by a project should always be used.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641467>

Question 826

Factoring is a form of short-term financing which involves

- A) actually selling accounts receivable to a financial institution at a discount from face value.
- B) pledging accounts receivable as collateral for a short-term loan.
- C) using a percentage of current assets as collateral for a short-term loan.
- D) selling inventory to a factor with an agreement to repurchase it at a set time in the future.

Answer: <https://biology-forums.com/index.php?topic=642460>

Question 827

Which of the following series of cash flows could have more than one IRR? (Negative cash flows are in parentheses.)

- A) \$(XX,XXX), \$X,XXX, \$X,XXX, \$X,XXX
- B) \$(XX,XXX), \$X,XXX, \$X,XXX, \$X,XXX, \$(XX,XXX)
- C) \$X,XXX, \$X,XXX, \$X,XXX, \$X,XXX, \$(XX,XXX)
- D) \$XX,XXX, \$X,XXX, \$X,XXX, \$X,XXX

Answer: <https://biology-forums.com/index.php?topic=641394>

Question 828

P. Noel's Inc.'s current ratio is 2. Current liabilities are \$500,000. P. Noel's current assets equal _____ and net working capital is _____.

- A) \$500,000 and \$1,000,000
- B) \$500,000 and \$250,000
- C) \$1,000,000 and \$500,000
- D) \$500,000 and \$500,000

Answer: <https://biology-forums.com/index.php?topic=642278>

Question 829

Which of the following is included in the calculation of the initial outlay for a capital investment?

- A) Investment in working capital
- B) A feasibility study conducted the previous year.
- C) Installation
- D) A and C but not B

Answer: <https://biology-forums.com/index.php?topic=641494>

Question 830

Your firm has the following balance sheet statement items: total current liabilities of \$805,000; total assets of \$2,655,000; fixed and other assets of \$1,770,000; and long-term debt of \$200,000. What is the amount of the firm's total current assets?

- A) \$885,000
- B) \$1,550,000
- C) \$600,000
- D) \$325,000

Answer: <https://biology-forums.com/index.php?topic=640562>

Question 831

On a common size balance sheet, total assets are equal to 100%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640598>

Question 832

The cost of newly issued common stock is greater than the current cost common equity because of

- A) capital gains taxes on retained earnings.
- B) flotation costs on newly issued common stock.
- C) capital gains taxes on newly issued common stock.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=641816>

Question 833

Excom Fiberoptics is bidding on contracts to sell micro test tubes for biotechnology research. in sets of 1,000 tubes. Fixed costs including depreciation associated with the project are \$2,000,000, variable cost per set is \$16. Excom expects to sell 250,000 sets. What is the minimum price it can charge and reach the accounting break-even point?

- A) \$8
- B) \$12
- C) \$24
- D) \$20

Answer: <https://biology-forums.com/index.php?topic=641636>

Question 834

If one security has a greater risk than another security, how will investors respond?

- A) They will require a lower rate of return for the investment that has greater risk.
- B) They would be indifferent regarding their expectation of rates of return for either investment.
- C) They will require a higher rate of return for the investment that has greater risk.
- D) None of the above.

Answer: <https://biology-forums.com/index.php?topic=640437>

Question 835

Dividends per share divided by earnings per share (EPS) equals the dividend retention date.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642109>

Question 836

Dieyard Battery Recyclers is considering a project with the following cash flows

Initial outlay = \$13,000

Cash flows: Year 1 = \$5,000

Year 2 = \$3,000

Year 3 = \$9,000

If the appropriate discount rate is 15%, compute the NPV of this project.

Answer: <https://biology-forums.com/index.php?topic=641374>

Question 837

The following are the prices in the foreign exchange market between the U.S. dollar and a foreign currency (fc). Spot 0.6335US\$/fc; three-month forward 0.6375US\$/fc. What was the discount or premium on three-month forward for the foreign currency?

- A) 0.63% premium
- B) 0.40% premium
- C) 0.63% discount
- D) 0.40% discount

Answer: <https://biology-forums.com/index.php?topic=642628>

Question 838

Which of the following features is shared by futures contracts and forward contracts?

- A) They are traded on organized exchanges.
- B) The commodities are standardized.
- C) The quantities traded are standardized.
- D) They mature (must be exercised or settled) at a specific date set in the contract.

Answer: <https://biology-forums.com/index.php?topic=642983>

Question 839

Since 2003 for most investors the tax rate on dividends has been _____ and the tax rate on capital gains has been _____.

- A) 28%, 15%
- B) 15%, 15%

C) 25%, 25%

D) 20%, 34%

Answer: <https://biology-forums.com/index.php?topic=642073>

Question 840

The security market line (SML) relates risk to return, for a given set of market conditions. If risk aversion increases, which of the following would most likely occur?

A) The market risk premium would increase.

B) Beta would increase.

C) The slope of the SML would increase.

D) The SML line would shift up.

Answer: <https://biology-forums.com/index.php?topic=641073>

Question 841

The issuance of bonds to raise capital for a corporation

A) magnifies the returns to the stockholders.

B) increases risk to the stockholders.

C) is a cheaper form of capital than the issuance of common stock.

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641107>

Question 842

All else constant, the present value of an investment will increase if

A) the investment is discounted at a higher interest rate.

B) the investment is discounted for fewer years.

C) the investment is discounted at a lower interest rate.

D) both B & C.

Answer: <https://biology-forums.com/index.php?topic=640783>

Question 843

Which of the basic financial statements is best used to answer the questions "What does the company own and how is it financed?"

A) Balance sheet

B) Statement of shareholder's equity

C) Income statement

D) Cash flow statement

Answer: <https://biology-forums.com/index.php?topic=640511>

Question 844

You want to travel to Europe to visit relatives when you graduate from college three years from now. The trip is expected to cost a total of \$10,000. Your parents have deposited \$5,000 for you in a CD paying 6% interest annually, maturing three years from now. Aunt Hilda has agreed to finance the balance. If you are going to put Aunt Hilda's gift in an investment earning 10% annually over the next three years, how much must she deposit now so you can visit your relatives in three years?

A) \$3,757

B) \$3,039

C) \$3,801

D) \$3,345

Answer: <https://biology-forums.com/index.php?topic=640911>

Question 845

The forward price of currencies can be either higher, lower or even the same as the spot price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642761>

Question 846

ABC purchased a machine for \$2,575,000. Required modifications will cost \$375,000. ABC will need to invest \$75,000 for additional inventory. The machine has an IRS approved useful life of 7 years; it is presumed to have no salvage value. It will only be operated for 3 years, after-which it will be sold for \$600,000. ABC plans to depreciate the machine by using the straight-line method. Assume that the firm's tax rate is 40%. What is the termination (non-operating) cash flow from the machine in year three?

A) \$900,623

B) \$1,109,286

C) \$1,298,114

D) \$879,247

Answer: <https://biology-forums.com/index.php?topic=641504>

Question 847

For New York Stock Exchange listed companies, a stock dividend exceeding _____ has been defined as a stock split.

A) 15%.

B) 25%.

C) 35%.

D) 50%.

Answer: <https://biology-forums.com/index.php?topic=641963>

Question 848

Which of the following is consistent with the semi-strong form efficient market hypothesis?

A) so-called value stocks outperform growth stocks.

B) stocks that have performed well over the past year continue to perform well for several more months.

C) a company announces higher than expected sales and earnings. The stock price immediately increases by 10%.

D) a company announces higher than expected sales and earnings. The stock price remains unchanged.

Answer: <https://biology-forums.com/index.php?topic=640979>

Question 849

According to the residual theory of dividends

A) dividends are to be paid out only after investment financing needs have been met.

B) earnings remaining after payment of preferred stock dividends should be paid to common stockholders.

C) dividend payments are a constant percentage of EPS.

D) a dividend is the residual above the payout ratio.

Answer: <https://biology-forums.com/index.php?topic=642137>

Question 850

Which of the following types of risk cannot typically be transferred to an insurance company?

A) Losses due to property damage from storms.

B) Losses due to on-the job injuries suffered by employees.

C) Losses due to rising raw materials costs that cannot be passed on to customers.

D) Losses due to the untimely death of an employee in a key position.

Answer: <https://biology-forums.com/index.php?topic=642862>

Question 851

Mr. Smith included the cost of test marketing before production in the calculation of the initial outlay. Apparently, Mr. Smith does not understand the concept of

A) side-effect costs.

B) opportunity costs.

C) sunk costs.

D) variable costs.

Answer: <https://biology-forums.com/index.php?topic=641465>

Question 852

All financial intermediaries are banks.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640471>

Question 853

Break-even NPV means that the expected rate of return on a project is equal to the required rate of return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641651>

Question 854

MacHinery Manufacturing Company is considering a three-year project that has a cost of \$75,000. The project will generate after-tax cash flows of \$33,100 in Year 1, \$31,500 in Year 2, and \$31,200 in Year 3. Assume that the firm's proper rate of discount is 10% and that the firm's tax rate is 40%. What is the project's payback?

- A) 0.33 years
- B) 1.22 years
- C) 2.33 years
- D) Three years

Answer: <https://biology-forums.com/index.php?topic=641397>

Question 855

Charlestown Marina's forecasts indicate that if slip rentals equal \$500,000, net operating income will be \$25,000 and if rentals equal \$525,000, net operating income will be \$37,500. What is Charlestown's degree of operating leverage?

- A) 2
- B) 10
- C) .05
- D) .10

Answer: <https://biology-forums.com/index.php?topic=641648>

Question 856

The difference between a stock's current price and the striking price of the option is the minimum value of the option.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642999>

Question 857

Moore Financing Corporation has preferred stock in its capital structure paying a dividend of \$3.75 and selling for \$25.00. If the marginal tax rate for Moore is 34%, what is the after-tax cost of preferred financing?

Answer: <https://biology-forums.com/index.php?topic=641765>

Question 858

Which of the following is the correct equation to solve for the NPV of the project that has an initial outlay of \$30,000, followed by three years of \$20,000 in incremental cash inflow? Assume a discount rate of 10%.

- A) $NPV = -30,000 + (3 \times 20,000)/(1.10)^3$
- B) $NPV = -\$30,000 + \$20,000/(1.10)^1 + \$20,000/(1.10)^2 + \$20,000/(1.10)^3$
- C) $NPV = -\$30,000 + \$20,000/(1.01).10 + \$20,000/(1.02).10 + \$20,000/(1.03).10$
- D) $NPV = -\$30,000 + \$20,000/(1.1).10 + \$20,000(1.2).10 + \$20,000(1.3).10$

Answer: <https://biology-forums.com/index.php?topic=641365>

Question 859

Which of the following is a correct formula for calculating the weighted average cost of capital?

- A) $WACC = \text{weighted after-tax cost of debt} + \text{weighted cost of preferred stock} + \text{weighted cost of common stock}$
- B) $WACC = \text{weighted after-tax cost of debt} + \text{weighted after-tax cost of preferred stock} + \text{weighted after-tax cost of common stock}$
- C) $WACC = (\text{after-tax cost of debt} + \text{cost of preferred stock} + \text{cost of common stock})/3$
- D) $WACC = \text{weighted cost of debt} + \text{weighted cost of preferred stock} + \text{weighted cost of common stock}$

Answer: <https://biology-forums.com/index.php?topic=641694>

Question 860

When using a financial calculator, which of the following is the correct way to find the future value of \$200 deposited today in an account for four years paying annual interest of 3%?

- A) $N=4, i=.03, PV=-200, PMT=0$, solve for FV
- B) $N=4, i=3, PV=-200, PMT=0$, solve for FV
- C) $N=4, i=3, PV=0, PMT=\$200$, solve for FV
- D) $N=4, i=3, FV=200, PMT=0$, solve for PV

Answer: <https://biology-forums.com/index.php?topic=640757>

Question 861

There is no such thing as a liquidity ratio being too high.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640693>

Question 862

The spot exchange rate for the Thai bhat is 33.135 bhat to the dollar. The 1 year forward rate is 34.175. Ramo Corp. has undertaken a capital project in Bangkok that is expected to produce a cash flow of 17,087,500 bhat at the end of the first year. The company will discount cash flows at a rate of

14%. What is the present value of the first year cash flow in U.S. dollars.

- A) \$14,989,035
- B) \$500,000
- C) \$438,596
- D) \$452,363

Answer: <https://biology-forums.com/index.php?topic=642779>

Question 863

You purchased one July futures contract of pork bellies at \$.59 per lb. One contract represents 40,000 lbs. of pork bellies. Initial margin on the contract was 4% of the contract price with a maintenance margin of \$500. By the end of the day, the price had fallen to \$.57 per lb. How much will you be required to add to your margin account to replenish your maintenance margin?

- A) None
- B) \$356
- C) \$144
- D) \$32

Answer: <https://biology-forums.com/index.php?topic=642941>

Question 864

Disadvantages of using current liabilities as opposed to long-term debt include

- A) greater risk of illiquidity.
- B) uncertainty of interest costs.
- C) higher cash flow exposure.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=642334>

Question 865

A machine has a cost of \$5,375,000. It will produce cash inflows of \$1,825,000 (Year 1); \$1,775,000 (Year 2); \$1,630,000 (Year 3); \$1,585,000 (Year 4); and \$1,650,000 (Year 5). At a discount rate of 16.25%, what is the NPV?

- A) \$81,724
- B) \$257,106
- C) \$416,912
- D) \$190,939

Answer: <https://biology-forums.com/index.php?topic=641363>

Question 866

Smith Enterprises has a line of credit with Fidelity National Bank that allows Smith to borrow up to \$350,000 at an interest rate of 5%. However, Smith must keep a compensating balance of 10% of any amount borrowed on deposit at Fidelity. Smith does not normally keep a cash balance account with Fidelity. What is the effective annual cost of credit (round to nearest .01 percent)?

- A) 5.93%
- B) 5.84%
- C) 5.64%
- D) 5.56%

Answer: <https://biology-forums.com/index.php?topic=642442>

Question 867

From the issuing firm's point of view, one advantage of preferred stock over bonds is

- A) preferred dividends are a deductible expense for tax purposes.
- B) preferred voting privileges concentrate power in the hands of managers and major shareholders.
- C) a dividend payment can be skipped without triggering bankruptcy.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=641309>

Question 868

A firm can reduce net working capital by substituting long-term financing, such as bonds, with short-term financing, such as a one-year notes payable. True / False?

Answer: <https://biology-forums.com/index.php?topic=642369>

Question 869

Which of the following scenarios carries the least risk of NOT being able to meet required payments (capital expenditure, dividend, interest and principal requirements) totaling \$96 million?

- A) Expected cash flow, \$116 million, standard deviation \$5 million
- B) Expected cash flow, \$107 million, standard deviation \$5.5 million
- C) Expected cash flow, \$112 million, standard deviation \$8 million
- D) Expected cash flow, \$134 million, standard deviation \$38 million

Answer: <https://biology-forums.com/index.php?topic=642840>

Question 870

The price of the British pound in Swiss francs rate is

- A) 1.4173 Swiss francs to the British pound.
- B) 1.4842 Swiss francs to the British pound.
- C) .7056 Swiss francs to the British pound.
- D) .6738 Swiss francs to the British pound.

Answer: <https://biology-forums.com/index.php?topic=642620>

Question 871

Government bonds have lower yield to maturity than do corporate bonds of the same maturity because the _____ premium is lower for government bonds.

- A) interest rate risk
- B) inflation
- C) default
- D) maturity

Answer: <https://biology-forums.com/index.php?topic=641211>

Question 872

The analysis of a firm's financial statements can be an important factor in the firm's ability to borrow money.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640590>

Question 873

P. Noel Company's common stock has just paid a \$2.00 dividend. If investors believe that the expected rate of return on P. Noel is 14% and that dividends will grow at the rate of 5% per year for the foreseeable future, what is the value of a share of P. Noel stock?

- A) \$15.00
- B) \$22.22
- C) \$23.33
- D) \$40.00

Answer: <https://biology-forums.com/index.php?topic=641226>

Question 874

Cabot Corp has a debt ratio (debt to assets) of 60%. Management is wondering if its current capital structure is too conservative. Cabot Corp's present EBIT is \$4.5 million, and profits available to common shareholders are \$2,791,800, with 384,000 shares of common stock outstanding. If the firm were to instead have a debt ratio of 80%, additional interest expense would cause profits available to stockholders to decline to \$2,732,400, but only 307,200 common shares would be outstanding. What is the difference in EPS at a debt ratio of 80% versus 60%?

- A) \$\$1.62
- B) \$1.33
- C) \$7.27
- D) \$-0.15

Answer: <https://biology-forums.com/index.php?topic=641925>

Question 875

The weighted average cost of capital is computed using before-tax costs of each of the sources of financing that a firm uses to finance a project.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641696>

Question 876

If the before-tax cost of debt is 9% and the firm has a 34% marginal tax rate, the after-tax cost of debt is 5.94%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641754>

Question 877

The S&P 500 Index is commonly used to estimate the market rate of return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641090>

Question 878

Which of the following comparisons between short-term bank loans is correct?

- A) Commercial paper interest rates are usually slightly higher than rates on bank loans.
- B) Commercial paper is only appropriate for firms requiring a limited amount of short-term financing, while banks can offer substantially larger amounts of funds.
- C) Banks demand that borrowers meet exacting credit-worthiness tests, while the lenders that purchase commercial paper are less strict. Only the most credit-worthy borrowers have access to bank loans.
- D) Commercial paper is less flexible than a line of credit, but the interest rate is lower.

Answer: <https://biology-forums.com/index.php?topic=642446>

Question 879

A dealer in London posts an ask rate of .6238 and a bid rate of .6237. How much, in U.K. pounds, would it cost to purchase \$100,000. For how much in pounds could you sell \$100,000?

Answer: <https://biology-forums.com/index.php?topic=642702>

Question 880

The tax shield on interest is calculated by multiplying the interest rate paid on debt by the principal amount of the debt and the firm's marginal tax rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641890>

Question 881

The present value of a complex cash flow stream is equal to the sum of the present values of each of the cash flows.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640923>

Question 882

If you deposit \$1,000 each year in a savings account earning 4%, compounded annually, how much will you have in 10 years?

Answer: <https://biology-forums.com/index.php?topic=640771>

Question 883

Which of the following reasons is used to justify stock repurchases?

- A) The repurchase narrows ownership.
- B) The repurchase modifies the firm's capital structure.
- C) The repurchase reduces the firm's costs associated with servicing small stockholders.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=642059>

Question 884

A negotiable certificate of deposit (CD) is a marketable receipt for funds deposited in a bank.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642547>

Question 885

Which of the following should be included in the initial outlay?

- A) Shipping and installation costs
- B) Increased working capital requirements
- C) Cost of employee training associated specifically with the asset being evaluated
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641489>

Question 886

ABC already spent \$85,000 on a feasibility study for a machine that will produce a new product. The machine will cost \$2,575,000. Required modifications will cost \$375,000. ABC will need to invest \$75,000 for additional inventory. The machine has an IRS approved useful life of 7 years; it is presumed to have no salvage value. It will only be operated for 3 years, after which it will be sold for \$600,000. What is the total investment amount required for the project?

- A) \$3,025,000
- B) \$2,950,000
- C) \$2,575,000
- D) \$2,350,000

Answer: <https://biology-forums.com/index.php?topic=641502>

Question 887

At 8%, compounded annually, how long will it take \$750 to double?

- A) 9 years
- B) 8 years
- C) 12 years
- D) 4 years
- E) 6 years

Answer: <https://biology-forums.com/index.php?topic=640763>

Question 888

When fixed expenses increase relative to sales, it indicates that there is not enough productive capacity to absorb an increase in sales.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642226>

Question 889

What is the present value of \$27 received at the end of each year for five years? Assume a discount rate of 9%. The first payment will be received one year from today (round to the nearest \$1).

- A) \$42
- B) \$114
- C) \$88
- D) \$105

Answer: <https://biology-forums.com/index.php?topic=640826>

Question 890

As the size of a financing issue increases, the _____ usually decreases on a percentage basis.

- A) cost of equity
- B) flotation cost of the issue
- C) effective tax rate
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=641815>

Question 891

Shorter-term bonds have greater interest rate risk than do longer-term bonds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641197>

Question 892

Broad Cloth, Inc.'s average collection period is 15 days. The vice-president of marketing has projected credit sales of \$2. million for October, \$2.5 million for November and \$3 million for December. Compute cash collections for November and December. Assume that all months have 30 days.

Answer: <https://biology-forums.com/index.php?topic=642272>

Question 893

Logan bought a bond that matures in 10 years and pays 6% interest. The bond had a face value of \$10,000. He received 10 annual payments of \$1,358.68. This bond was

- A) a mortgage bond.
- B) an amortizing bond.
- C) a zero coupon bond.
- D) a Eurobond.

Answer: <https://biology-forums.com/index.php?topic=641205>

Question 894

If a stock has a much higher than normal P/E ratio, investors probably expect

- A) slow growth in earnings.

- B) rapid growth in earnings.
- C) large increases in the price of the stock.
- D) a declining stock price

Answer: <https://biology-forums.com/index.php?topic=641277>

Question 895

In an efficient market there is no reward for accepting risk that can be eliminated through diversification.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641060>

Question 896

Your firm has the following income statement items: sales of \$50,250,000; income tax of \$1,744,000; operating expenses of \$10,115,000; cost of goods sold of \$35,025,000; and interest expense of \$750,000. What is the amount of the firm's EBIT?

- A) \$15,552,000
- B) \$58,000,000
- C) \$5,110,000
- D) \$4,630,000

Answer: <https://biology-forums.com/index.php?topic=640525>

Question 897

One advantage of the payback method is that it can be readily understood by people with no special training in finance.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641417>

Question 898

You have just received an endowment of \$32,976. You plan to put the entire amount in an account earning 8 percent compounded annually and to withdraw \$4000 at the end of each year. How many years can you continue to make the withdrawals?

Answer: <https://biology-forums.com/index.php?topic=640881>

Question 899

The major sources of financing for corporations are

- A) partners contributions.
- B) exchanges between shareholders.
- C) interest and dividends
- D) Debt and equity.

Answer: <https://biology-forums.com/index.php?topic=640392>

Question 900

Discretionary sources of financing are those sources that vary automatically with a firm's level of sales.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642225>

Question 901

If you have an opportunity cost of 10%, how much must you invest each year to have \$4,000 accumulated in 10 years?

Answer: <https://biology-forums.com/index.php?topic=640880>

Question 902

How much money did Roddy Richards receive when he sold his shares of W.M.D.?

- A) \$12,014.88
- B) \$12,398.42
- C) \$13,663.47
- D) \$14,184.73

Answer: <https://biology-forums.com/index.php?topic=640968>

Question 903

Unsystematic risk can be eliminated through diversification.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641059>

Question 904

In 2016, ABC's average collection period is

- A) 30 days.
- B) 32.5 days.
- C) 25 days.
- D) 35 days.

Answer: <https://biology-forums.com/index.php?topic=640661>

Question 905

Financial managers use the time value of money to

- A) make business decisions.
- B) compare cash flows of different projects.
- C) determine the price of common stock.
- D) both A and B.
- E) all of the above.

Answer: <https://biology-forums.com/index.php?topic=640718>

Question 906

Which of the following is a reason why management may prefer repurchase offers over cash dividends?

- A) Repurchases signal earnings predictability.
- B) Once corporations begin paying dividends, they become a legal obligation but repurchase offers do not.
- C) Repurchase agreements allow management greater flexibility in deciding how much cash to distribute.
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642141>

Question 907

_____ is a method of quantifying uncertainty without having to estimate probabilities.

- A) Standard deviation
- B) Sensitivity analysis
- C) Coefficient of variation
- D) Decision tree analysis

Answer: <https://biology-forums.com/index.php?topic=641585>

Question 908

At the beginning of the financial crisis of 2008, excessive debt caused serious problems in the _____ industry.

- A) computer
- B) pharmaceuticals
- C) utilities
- D) financial

Answer: <https://biology-forums.com/index.php?topic=641900>

Question 909

Pledging accounts receivable as a source of short-term credit

- A) is a type of loan secured by accounts receivable.
- B) is a form of spontaneous credit.
- C) involves the outright sale of accounts receivable to a financial institution.
- D) is an inexpensive but risky source of short-term financing.

Answer: <https://biology-forums.com/index.php?topic=642478>

Question 910

The market risk premium is

- A) 2%.
- B) 4%.
- C) 6%.
- D) 8%.

Answer: <https://biology-forums.com/index.php?topic=641083>

Question 911

Purchasing insurance coverage is not justified in cases where potential losses are unlikely, but potentially catastrophic.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642888>

Question 912

Which of the following best explains the continuing popularity of the payback method?

- A) Mathematical simplicity and some insight into the riskiness of cash flows.
- B) Uses all cash flows and takes into account the time value of money.
- C) Reliably selects the projects that add most value to the firm.
- D) It provides objective selection criteria and is taught as the primary method in most business schools.

Answer: <https://biology-forums.com/index.php?topic=641433>

Question 913

Lines of credit often require that the borrower maintain a minimum balance in the bank throughout the loan period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642489>

Question 914

Any unsecured long-term debt instrument is a debenture.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641114>

Question 915

Sunshine Candy Company's capital structure for the past year of operation is shown below.

First mortgage bonds at 12% \$2,000,000
Debentures at 15% 1,500,000
Common stock (1 million shares) 5,000,000
Retained earnings 500,000
Total \$9,000,000

The federal tax rate is 50%. Sunshine Candy Company, home-based in Orlando, wants to raise an additional \$1 million to open new facilities in Tampa and Miami. The firm can accomplish this via two alternatives: (1) it can sell a new issue of 20-year debentures with 16% interest; or (2) 20,000 new shares of common stock can be sold to the public to net the candy company \$50 per share. A recent study, performed by an outside consulting organization, projected Sunshine Candy Company's long-term EBIT level at approximately \$6.8 million. Find the indifference level of EBIT (with regard to EPS) between the suggested financing plans.

Answer: <https://biology-forums.com/index.php?topic=641940>

Question 916

What is a series of equal payments to be received at the end of each period, for a finite period of time, called?

- A) A perpetuity
- B) An annuity due
- C) A cash cow
- D) An ordinary annuity

Answer: <https://biology-forums.com/index.php?topic=640870>

Question 917

In 2016, shares of Chipotle Mexican Grill lost more than half their value after widely reported incidents of customers suffering from food poisoning after eating at the restaurants. The change in stock price illustrates which principle?

- A) Market prices reflect information.
- B) Individuals respond to incentives.
- C) Cash flows are the source of value.
- D) The time-value of money.

Answer: <https://biology-forums.com/index.php?topic=640447>

Question 918

What is the present value of the following perpetuities?

- a. \$600 discounted at 7%
- b. \$450 discounted at 12%
- c. \$1,000 discounted at 6%
- d. \$880 discounted at 9%

Answer: <https://biology-forums.com/index.php?topic=640903>

Question 919

Which of the following is most likely to have a negative impact on stock price?

- A) Omitting a stock repurchase offer
- B) Failure to increase the dividend at the same rate as previous years
- C) Cutting the dividend per share in dollar terms
- D) Reducing the dividend payout ratio

Answer: <https://biology-forums.com/index.php?topic=642131>

Question 920

What are the key questions that a strategic plan attempts to answer? How does it relate to financial plans?

Answer: <https://biology-forums.com/index.php?topic=642171>

Question 921

Project January has a NPV of \$50,000, project December has a NPV of \$40,000. Which of the following circumstances could make it possible to choose December over January?

- A) January has a shorter payback period.
- B) The projects are mutually exclusive.
- C) The projects have unequal lives.
- D) The projects are mandated.

Answer: <https://biology-forums.com/index.php?topic=641354>

Question 922

As bond approaches maturity, discounts and premiums become less and less significant.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641193>

Question 923

Dawn Swift discovered that 20 years ago, the average tuition for one year at an Ivy League school was \$15,000. Today, the average cost is \$60,000. What is the growth rate in tuition cost over this 20-year period?

- A) 15.5%
- B) 4.2%
- C) 7.18%
- D) 10.6%

Answer: <https://biology-forums.com/index.php?topic=640749>

Question 924

Given an accounts receivable turnover of 8 and annual credit sales of \$362,000, the average collection period (360-day year) is

- A) 90 days.
- B) 45 days.
- C) 75 days.
- D) 60 days.

Answer: <https://biology-forums.com/index.php?topic=640606>

Question 925

If a project reaches the accounting break-even point in every year of its life, it must also have a positive NPV.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641656>

Question 926

Lott Bros Developers evaluates a great many small to medium size projects each year. Some are riskier than others. Lott Bros should probably

- A) allow individual project managers to estimate their own discount rates.
- B) try to identify the specific funding sources for each project.
- C) use the company's overall WACC for all projects.
- D) spend a great deal of time and money to estimate discount rates for each project.

Answer: <https://biology-forums.com/index.php?topic=641796>

Question 927

Boulangerie Bouffard expects to sell 1 million croissants next year for \$1.25 each. Variable cost of a croissant is \$0.75. Fixed costs are \$150,000,

depreciation \$200,000 and the tax rate is 25%. If the number of croissants sold increases by 10%, and all other variables remain the same, how much will free cash flow increase?

Answer: <https://biology-forums.com/index.php?topic=641624>

Question 928

Which forms of organization are free of initial legal requirements?

- A) Sole proprietorship
- B) General partnership
- C) Corporation
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=640386>

Question 929

The current ratio and net working capital are good predictors of a firm's ability to meet its short term obligations. Agree or disagree.

Answer: <https://biology-forums.com/index.php?topic=642311>

Question 930

You have been offered a credit card with an interest rate of 1.5% per month. This is equivalent to an effective annual rate (EAR) of

- A) 12.17%.
- B) 18.00%.
- C) 24.00%.
- D) 19.56%.

Answer: <https://biology-forums.com/index.php?topic=640806>

Question 931

Under what conditions are shareholders likely to incur agency costs when managers make capital budgeting decisions?

Answer: <https://biology-forums.com/index.php?topic=641894>

Question 932

LaVigne Wineries is purchasing a new wine press. The equipment will cost \$250,000. Transportation and installation will cost another \$35,000. Because of increased production, inventories will increase by \$15,000. The press will be depreciated using the straight line method to a book value of \$0.00 over its useful life of 7 years. Compute depreciation for each year of the project.

Answer: <https://biology-forums.com/index.php?topic=641538>

Question 933

Spontaneous sources of financing include

- A) marketable securities.
- B) accruals.
- C) bonds.
- D) commercial paper.

Answer: <https://biology-forums.com/index.php?topic=642341>

Question 934

Forward contracts are usually quoted for periods greater than one year.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642696>

Question 935

To find the present value of \$1000 discounted for 20 years at 8%, when using a financial calculator, the correct entry is

- A) N=20, i=.08, PMT=0, FV=1000 solve for PV.
- B) N=20, i=8, PMT=0, FV=1000 solve for PMT.
- C) N=20, i=.08, PMT=0, PV=1000 solve for FV.
- D) N=20, i=8, PMT=0, FV=1000 solve for PV.

Answer: <https://biology-forums.com/index.php?topic=640784>

Question 936

The security market line (SML) relates risk to return, for a given set of market conditions. If expected inflation increases, which of the following would most likely occur?

- A) The market risk premium would increase.

- B) Beta would increase.
- C) The slope of the SML would increase.
- D) The SML line would shift up.

Answer: <https://biology-forums.com/index.php?topic=641072>

Question 937

A monthly credit card interest rate of 1.5% is equal to an effective annual rate of 19.56%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640809>

Question 938

What is the payback period for a \$20,000 project that is expected to return \$6,000 for the first two years and \$3,000 for Years 3 through 5?

- A) 3 1/2
- B) 4 1/2
- C) 4 2/3
- D) 5

Answer: <https://biology-forums.com/index.php?topic=641415>

Question 939

Year 0	Year 0	Year 1	Year 2
Revenue	\$15,000	\$15,000	
Variable Cost	(\$5,000)	(\$5,000)	
Depreciation	(\$200)	(\$200)	
Fixed Cost	(\$350)	(\$350)	
Operating Income	\$9,450	\$9,450	
Taxes at 30%	(\$2,835)	(\$2,835)	
NOPAT	\$6,615	\$6,615	
Capital Investment	(\$5,753)		
Free Cash Flow	\$6,815	\$6,815	
NPV	\$6,074.69		

Forecasts for project ST are shown above. Using a discount rate of 10%, the project has a positive NPV of \$6,074.69. Estimate within \$100 the level of sales revenue that will result in an NPV of \$0.00. No other variables will change.

Answer: <https://biology-forums.com/index.php?topic=641660>

Question 940

Which of the following is a correct equation to solve for the NPV of the project that has an initial outlay of \$30,000, followed by incremental cash inflows in the next 3 years of \$15,000, \$20,000, and \$30,000? Assume a discount rate of 10%.

- A) $NPV = -\$30,000 + \$15,000(1.10)^1 + \$20,000(1.10)^2 + \$30,000(1.10)^3$
- B) $NPV = -\$30,000 + \$15,000/(1.10)^1 + \$20,000/(1.10)^2 + \$30,000/(1.10)^3$
- C) $NPV = -\$30,000 + \$15,000/(1.01)^{.10} + \$20,000/(1.02)^{.10} + \$30,000/(1.03)^{.10}$
- D) $NPV = -\$30,000 + \$15,000/(1.1)^{.10} + \$20,000(1.2)^{.10} + \$30,000(1.3)^{.10}$

Answer: <https://biology-forums.com/index.php?topic=641360>

Question 941

If you want to have \$90 in four years, how much money must you put in a savings account today? Assume that the savings account pays 8.5% and it is compounded monthly (round to the nearest \$1).

- A) \$64
- B) \$65
- C) \$66
- D) \$71

Answer: <https://biology-forums.com/index.php?topic=640794>

Question 942

Compute the payback period for a project with the following cash flows, if the company's discount rate is 12%.

Initial outlay = \$450

Cash flows: Year 1 = \$325

Year 2 = \$65

Year 3 = \$100

- A) 3.43 years
- B) 3.17 years

C) 2.88 years

D) 2.6 years

Answer: <https://biology-forums.com/index.php?topic=641386>

Question 943

The percent-of-sales method of forecasting makes which of the following assumptions?

A) That some assets do not increase in direct proportion to an increase in sales.

B) The accounts receivable average collection period will remain constant throughout the forecast period.

C) The firm may acquire some "lumpy" assets.

D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=642190>

Question 944

The growth rate of future earnings is determined by return on equity and the profit-retention rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641263>

Question 945

Eliminating all possible risk will ultimately

A) guarantee the highest possible cash flow over the long run.

B) cancel out all profits with cost of hedging.

C) result in lower expected cash flow but the highest cash flow for the worst case scenario.

D) guarantee that the firm will not experience losses.

Answer: <https://biology-forums.com/index.php?topic=642832>

Question 946

A retailer that accepts credit cards will have a higher accounts receivable turnover ratio than a retailer with its own credit department.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640694>

Question 947

Atlas Tire Irons, Inc. is considering borrowing \$5,000 for a 3 month period. The firm will repay the \$5,000 principal amount plus \$150 in interest.

A) 3%

B) 12%

C) 15%

D) 18%

Answer: <https://biology-forums.com/index.php?topic=642454>

Question 948

Mortgage Backed securities are bonds whose cash flows are backed by large pools of mortgages.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640490>

Question 949

McDonald's stock currently sells for \$123. It's expected earnings per share are \$5.12. The average P/E ratio for the industry is 24. If investors expected the same growth rate and risk for McDonald's as for an average firm in the same industry, it's stock price would

A) stay about the same.

B) rise.

C) fall.

D) there is not enough information.

Answer: <https://biology-forums.com/index.php?topic=641283>

Question 950

A friend of yours plans to begin saving for retirement by depositing \$2,000 at the end of each year for the next 25 years. If she can earn 10% annually on her investment, how much will she have accumulated at the end of 25 years?

A) \$50,000

B) \$196,692

C) \$100,000

D) \$216,361

Answer: <https://biology-forums.com/index.php?topic=640853>

Question 951

When computing a firm's cost of capital, book values should be used because they are more objective.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641709>

Question 952

The benefit from diversification is far greater when the diversification occurs across asset types.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641017>

Question 953

According to the self-liquidating debt principle permanent assets should be financed with _____ liabilities.

- A) permanent
- B) spontaneous
- C) current
- D) fixed

Answer: <https://biology-forums.com/index.php?topic=642335>

Question 954

When a bond's coupon rate is lower than the required rate of return, the bond

- A) will sell at a discount from par.
- B) will sell at a premium over par
- C) may sell at either a discount or a premium.
- D) will sell at par value.

Answer: <https://biology-forums.com/index.php?topic=641149>

Question 955

Which of the following statements about the percent-of-sales method of financial forecasting is true?

- A) It is the least commonly used method of financial forecasting.
- B) It is a much more precise method of financial forecasting than a cash budget would be.
- C) It involves estimating the level of an expense, asset, or liability for a future period as a percent of the forecast for sales revenues.
- D) It projects all liabilities as a fixed percentage of sales.

Answer: <https://biology-forums.com/index.php?topic=642176>

Question 956

What is the difference between forward rates and spot rates? What is the purpose of forward contracts?

Answer: <https://biology-forums.com/index.php?topic=642704>

Question 957

There is abundant evidence that most companies operate at or near their optimal capital structures.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641905>

Question 958

If Challenge Corporation has sales of \$2 million per year (all credit) and an average collection period of 35 days, what is its average amount of accounts receivable?

- A) \$191,781
- B) \$57,143
- C) \$5,556
- D) \$97,222

Answer: <https://biology-forums.com/index.php?topic=640677>

Question 959

An investor will get maximum risk reduction by combining assets that are

- A) negatively correlated.
- B) positively correlated.
- C) uncorrelated.

D) perfectly, positively correlated.

Answer: <https://biology-forums.com/index.php?topic=641001>

Question 960

In which countries would you expect companies to have the lowest leverage ratios?

- A) Countries with very high tax rates.
- B) Countries that tend to subsidize key industries and protect them from failure.
- C) Countries where creditors have very strong legal protection.
- D) Countries where the market value of companies is high compared to their book values.

Answer: <https://biology-forums.com/index.php?topic=641898>

Question 961

The expected dividend is \$2.50 for a share of stock priced at \$25. What is the cost of common equity if the long-term growth in dividends is projected to be 4%?

- A) 10%
- B) 8%
- C) 14%
- D) 18%

Answer: <https://biology-forums.com/index.php?topic=641714>

Question 962

Jake's Tree farm is evaluating a proposal to plant 5,000 ornamental trees at an initial cost of \$10,000. The trees will be sold in 5 years. What is the minimum after tax cash flow from selling the trees that will allow the tree planting project to reach break even NPV? Use a discount rate of 12%.

- A) \$12,000.00
- B) \$5,674.26
- C) \$17,623.42
- D) \$17,958.56

Answer: <https://biology-forums.com/index.php?topic=641638>

Question 963

Most stock splits

- A) increase the number of shares outstanding.
- B) increase the value of the company.
- C) tend to raise the price of the stock.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641957>

Question 964

Given the following information, determine the risk-free rate.

Cost of equity = 12%

Beta = 1.50

Market risk premium = 6%

- A) 6.0%
- B) 3.0%
- C) 9.0%
- D) 6.5%

Answer: <https://biology-forums.com/index.php?topic=641743>

Question 965

Firm A's risk premium is

- A) 4%.
- B) 6%.
- C) 8%.
- D) 10%.

Answer: <https://biology-forums.com/index.php?topic=641084>

Question 966

One U.S. dollar buys 21.9923 Mexican pesos and .8885 euro. What is the peso/euro exchange rate?

Answer: <https://biology-forums.com/index.php?topic=642711>

Question 967

Compare the Stable Dividend Payout to the Residual Dividend Policy.

Answer: <https://biology-forums.com/index.php?topic=642154>

Question 968

What is the present value of an annuity of \$12 received at the end of each year for seven years? Assume a discount rate of 11%. The first payment will be received one year from today (round to the nearest \$1).

- A) \$25
- B) \$40
- C) \$57
- D) \$118

Answer: <https://biology-forums.com/index.php?topic=640824>

Question 969

What is the standard deviation of an investment that has the following expected scenario? 18% probability of a recession, 2.0% return; 65% probability of a moderate economy, 9.5% return; 17% probability of a strong economy, 14.2% return.

- A) 3.68%
- B) 1.23%
- C) 8.47%
- D) 6.66%

Answer: <https://biology-forums.com/index.php?topic=640938>

Question 970

Davis & Davis issued \$1,000 par value bonds at 102. The bonds pay 12% interest annually and mature in 30 years. The market rate of interest is (round to the nearest hundredth of a percent)

- A) 12.00%.
- B) 11.71%.
- C) 10.12%.
- D) 11.29%.

Answer: <https://biology-forums.com/index.php?topic=641128>

Question 971

Treasury bills are a safer choice than bank deposits for very large sums.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642556>

Question 972

Directors and officers insurance protects the company if key personnel die or leave the firm for other opportunities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642884>

Question 973

Vipsu Corporation plans to issue 10-year bonds with a par value of \$1,000 that will pay \$55 every six months. The net amount of capital to the firm from the sale of each bond is \$840.68. If Vipsu is in the 25% tax bracket, what is the after-tax cost of debt?

Answer: <https://biology-forums.com/index.php?topic=641764>

Question 974

Organized security exchanges do not physically occupy space.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640502>

Question 975

Which of the following is the formula for present value?

- A) $FVn = P(1 + i)^n$
- B) $FVn = (1 + i)/P$
- C) $FVn = P/(1 + i)^n$
- D) $FVn = P(1 + i)^{-n}$

Answer: <https://biology-forums.com/index.php?topic=640764>

Question 976

- When a party enters into a swap contract it agrees to
- A) accept one set of payments in exchange for another.
 - B) exchange principals on loans with different interest rates.
 - C) exchange a loan for a different loan with a different time to maturity.
 - D) swap a debt obligation for an equity obligation.

Answer: <https://biology-forums.com/index.php?topic=643161>

Question 977

In 2016 Mango Corporation had net income of \$5 million on sales of \$50 million. The 2016 balance sheet showed current liabilities of \$12 million, long-term debt of \$18 million and equity of \$45 million. The sales forecast for 2017 is \$54 million. If Mango pays no dividends, what is the forecasted increase or decrease in equity at the end of 2017?

- A) \$49.5 million
- B) \$ 4.5 million
- C) \$5.4 million
- D) \$(5.4) million

Answer: <https://biology-forums.com/index.php?topic=642189>

Question 978

What is the present value of \$1,000 to be received 10 years from today? Assume that the investment pays 8.5% and it is compounded monthly (round to the nearest \$1).

- A) \$893
- B) \$3,106
- C) \$429
- D) \$833

Answer: <https://biology-forums.com/index.php?topic=640779>

Question 979

A new forklift under consideration by Home Warehouse requires an initial investment of \$100,000 and produces annual cash flows of \$50,000, \$40,000, and \$30,000. Which of the following will not change if the required rate of return is increased from 10% to 12%.

- A) The net present value.
- B) The internal rate of return.
- C) The profitability index.
- D) The modified internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=641392>

Question 980

P/E ratios found in published sources or on the internet are always computed by dividing the next period's expected earnings into the current price of the stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641289>

Question 981

The direct 6 month forward rate for the Japanese yen is 0.008853.; the yen is expected to

- A) stay the same against the dollar.
- B) weaken against the dollar.
- C) fluctuate randomly against the dollar.
- D) strengthen against the dollar.

Answer: <https://biology-forums.com/index.php?topic=642624>

Question 982

Baker & Co. has applied for a loan from the Trust Us Bank in order to invest in several potential opportunities. In order to evaluate the firm as a potential debtor, the bank would like to compare Baker & Co. to the industry. The following are the financial statements given to Trust Us Bank:

Balance Sheet 12/31/15 12/31/16

Cash \$305 270

Accounts receivable 275 290

Inventory 600 580

Current assets 1,180 1,140

Plant and equipment 1,700 1,940

Less: acc depr (500) (600)
Net plant and equipment 1,200 1,340
Total assets \$2,380 \$2,480
Liabilities and Owners' Equity
Accounts payable \$150 \$200
Notes payable 125 0
Current liabilities 275 200
Bonds 500 500
Owners' equity
Common stock 165 305
Paid-in-capital 775 775
Retained earnings 665 700
Total owners' equity 1,605 1,780
Total liabilities and owners' equity \$2,380 \$2,480
Income Statement
Sales (100% credit) \$1,100 \$1,330
Cost of goods sold 600 760
Gross profit 500 570
Operating expenses 20 30
Depreciation 160 200
Net operating income 320 340
Interest expense 64 57
Net income before taxes 256 283
Taxes 87 96
Net income \$169 \$187

a. What are the firm's financial strengths and weaknesses?

b. Should the bank make the loan? Why or why not?

Answer: <https://biology-forums.com/index.php?topic=640701>

Question 983

Boylston Inc.'s total interest bearing debt is \$10,000,000 on which it pays interest at the rate of 5%. Boylston's rate of return on assets is 10%. How much cash flow does leverage add to shareholders equity?

- A) \$(500,000) negative cash flow
- B) \$(1,000,000) negative cash flow.
- C) \$1,000,000
- D) \$500,000

Answer: <https://biology-forums.com/index.php?topic=641838>

Question 984

Walker & Son is issuing a 10-year, \$1,000 par value bond that pays 9% interest annually. The bond is expected to sell for \$885. What is Walker & Son's after-tax cost of debt if the firm is in the 34% tax bracket?

- A) 7.23%
- B) 8.01%
- C) 9.15%
- D) 10.35%

Answer: <https://biology-forums.com/index.php?topic=641728>

Question 985

The percentage of debt in Spencer's weighted average cost of capital is

- A) 38.1%.
- B) 31.25.
- C) 25%.
- D) 57.14%.

Answer: <https://biology-forums.com/index.php?topic=641703>

Question 986

When multinational companies evaluate capital investments in foreign countries, they discount

- A) pre-tax earnings of the foreign subsidiary.
- B) foreign earnings at home country discount rates.
- C) only earnings that are expected to be transferred back to the parent company.
- D) all cash flows in the foreign currency at the host country discount rates.

Answer: <https://biology-forums.com/index.php?topic=642786>

Question 987

In 2012, Snout and Smith, Inc. had a gross profit of \$27,000 on sales of \$110,000. S & S's operating expenses for 2012 were \$13,000, and its net profit margin was .0585. Snout and Smith had no interest expense in 2012. What was S&S's operating profit margin?

- A) 0.245
- B) 0.118
- C) 0.127
- D) 0.157

Answer: <https://biology-forums.com/index.php?topic=640637>

Question 988

Businesses that wish to issue public debt will usually seek help from

- A) a state or union pension fund.
- B) a large life insurance company.
- C) the Federal Reserve bank.
- D) an investment banking firm.

Answer: <https://biology-forums.com/index.php?topic=641111>

Question 989

One disadvantage of long-term plans is a loss of flexibility in responding to unexpected events.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642168>

Question 990

A firm that is extremely efficient in managing current assets while maximizing the free financing provided by accounts payable will have a lower current ratio and a lower net working capital than a less efficient firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642302>

Question 991

The difference between mutual funds and ETFs is that ETFs are traded on exchanges and mutual funds are not.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640477>

Question 992

Which of the following has a beta of zero?

- A) A risk-free asset
- B) The market
- C) A high-risk asset
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=641033>

Question 993

Pilgrim's WACC is 12%. It has one opportunity to invest in a high risk project with an expected rate of return of 25%. It has another opportunity to lease a building to a government agency. The expected rate of return on the lease is 10%.

- A) Pilgrim should definitely accept the high risk project and reject the leasing arrangement.
- B) Ideally, Pilgrim would discount the cash flows from each project at a rate appropriate to its risk.
- C) Pilgrim should definitely accept both projects.
- D) Pilgrim should finance the lease with all debt and the high risk project with all equity.

Answer: <https://biology-forums.com/index.php?topic=641792>

Question 994

Preferred stock is similar to a bond in the following way

- A) Preferred stock always contains a maturity date.
- B) Both investments provide a fixed income.
- C) Both contain a growth factor similar to common stock.
- D) None of the above.

Answer: <https://biology-forums.com/index.php?topic=641308>

Question 995

What is the value on 1/1/16 of the following cash flows? Use a 10% discount rate, and round your answer to the nearest \$1.00.

Date Cash Received Amount of Cash

- 1/1/18 \$100
- 1/1/19 \$200
- 1/1/20 \$300
- 1/1/21 \$400
- 1/1/22 \$500

- A) \$1,500
- B) \$880
- C) \$968
- D) \$1,065

Answer: <https://biology-forums.com/index.php?topic=640904>

Question 996

Which of the following is NOT an example of systematic risk?

- A) Inflation
- B) Recession
- C) Management risk
- D) Interest rate risk

Answer: <https://biology-forums.com/index.php?topic=641043>

Question 997

You are evaluating the purchase of Charbridge, Inc. common stock which currently pays no dividend and is not expected to do so for many years. Because of rapidly growing sales and profits, you believe the stock will be worth \$51.50 in 3 years. If your required rate of return is 16%, what is the stock worth today?

- A) \$59.74
- B) \$51.25
- C) \$32.99
- D) \$0.00 because stocks that do not pay dividends have no value.

Answer: <https://biology-forums.com/index.php?topic=641234>

Question 998

In the fourth and final year of a project, SVC expects operating cash flow of \$440,000. The project required an \$80,000 investment in working capital at the beginning. Of that amount, \$60,000 will be recovered in year 4. Machinery associated with the project will be sold for exactly its undepreciated value of \$15,000. Total free cash flow for the fourth year is

- A) \$75,000.
- B) \$1,500,000.
- C) \$515,000.
- D) \$535,000.

Answer: <https://biology-forums.com/index.php?topic=641513>

Question 999

Venture capital funds play an important role in the initial financing of new businesses.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640478>

Question 1000

Long-term bonds issued by large, established corporations are commonly used to estimate the risk-free rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641088>

Question 1001

Sharky's Loan Co. has an annual interest expense of \$30,000. If Sharky's times-interest-earned ratio is 2.9, what is Sharky's Earnings Before Taxes (EBT)?

- A) \$87,000
- B) \$57,000
- C) \$117,000
- D) \$60,000

Answer: <https://biology-forums.com/index.php?topic=640638>

Question 1002

Thaler & Co. anticipates an increase of \$1,000,000 in Net Operating Income from first year sales of a new product. Taxes will be \$350,000 and the company took \$150,000 in depreciation expense. Operating cash flow equals

- A) \$1,000,000.
- B) \$500,000.
- C) \$800,000.
- D) \$650,000.

Answer: <https://biology-forums.com/index.php?topic=641481>

Question 1003

A firm can estimate its cost of debt by finding the yield on bonds issued by other firms with similar ratings and maturities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641756>

Question 1004

Using separate cost of capital estimates for individual projects is not appropriate when the projects are relatively few in number and large in scale.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641804>

Question 1005

The most important tax rates for financial decisions are _____ tax rates.

- A) marginal
- B) average
- C) implied
- D) capital gains

Answer: <https://biology-forums.com/index.php?topic=640552>

Question 1006

Black Friday Inc. has estimated the following cash flows for a project it is considering:

Period Cash Flow

- 0 (\$150,000)
- 1 \$70,000
- 2 \$80,000
- 3 (\$100,000)

- a. What is the payback period for this project?
- b. What is the obvious problem with using the payback method in this case?

Answer: <https://biology-forums.com/index.php?topic=641430>

Question 1007

Which of the following is a correct EXCEL formula to solve for the net present value of a project? Assume that CF₀ is expressed as a negative number.

- A) =NPV (k,CF1, CF2,...CFn)+CF0
- B) =NPV (k,CF0,CF1, CF2,...CFn)
- C) =NPV (CF0,CF1, CF2,...CFn)
- D) =NPV (CF1, CF2,...CFn)+CF0

Answer: <https://biology-forums.com/index.php?topic=641367>

Question 1008

When evaluating Capital Budgeting decisions, which of the following items should NOT be included in the construction of cash flow projections for purposes of analysis?

- A) Net salvage value
- B) Changes in net working capital requirements
- C) Shipping and installation costs
- D) All of the above should be included.

Answer: <https://biology-forums.com/index.php?topic=641461>

Question 1009

Kannan Carpets, Inc. has asked you to calculate the company's quick ratio for 2016. All you have is a partial balance sheet and some assumptions. Using the information provided, calculate Kannan's quick ratio for 2016.

- Gross profit margin = 50%
Inventory turnover (COGS/Inv) = 5
2001 sales = \$3,000
Assets Liabilities & Equity
Cash ? Accounts payable \$50
AR \$40 Accruals ?
Inventory ? Long-term debt \$400
Net fixed assets \$500 Equity 250
Total assets \$900 Total liab. & equity ?
- A) 0.2
B) 0.4
C) 0.6
D) 0.8

Answer: <https://biology-forums.com/index.php?topic=640654>

Question 1010

J.B. 's Wholesale Club has current assets of \$12.25 million and current liabilities of \$14 million. Which of the following is possible.

- A) J.B. makes efficient use of its current assets.
B) J.B. may be at some risk of being unable to pay its bills.
C) J.B. appears to be overinvesting in current assets.
D) Either or both A and B may be true.

Answer: <https://biology-forums.com/index.php?topic=642298>

Question 1011

What will the dollar amount be in four years, assuming that interest is paid annually?

- A) \$2,800
B) \$3,100
C) \$3,111
D) \$3,148

Answer: <https://biology-forums.com/index.php?topic=640750>

Question 1012

When Starbuck's decided to acquire Seattle's Best Coffee Company, it presumably concluded that the

- A) the rate of return they would earn on Seattle's Best equaled or exceeded the risk-free rate.
B) the rate of return they would earn on Seattle's Best equaled or exceeded Starbucks overall cost of capital.
C) the rate of return they would earn on Seattle's Best would be equal to or higher than the rate of return they could earn on other investments of equal risk.
D) the rate of return they would earn on Seattle's Best equaled or exceeded what Seattle's best was earning prior to the acquisition.

Answer: <https://biology-forums.com/index.php?topic=641693>

Question 1013

Which of the following events might negatively affect a project's net present value?

- A) Rules change to allow for faster depreciation of plant and equipment.
B) Tax rates go down, which lowers the value of the tax shelter from depreciation.
C) Projected sales over the life of the project remain the same, but they are higher in the early years and lower in the later years.
D) Interest rates go up requiring an increase in the required rate of return.

Answer: <https://biology-forums.com/index.php?topic=641575>

Question 1014

According to the DuPont Analysis, an increase in net profit margin will decrease return on assets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640689>

Question 1015

What is the expected dollar return on a portfolio which consists of \$9,000 invested in an S&P 500 Index fund, \$32,500 in a technology fund, and \$8,500 in Treasury Bills. The expected rate of return is 11% on the S&P Index fund, 14% on the technology fund and 2% on the Treasury Bills.

- A) \$13,640
B) \$571

C) \$4,500

D) \$5,710

Answer: <https://biology-forums.com/index.php?topic=640999>

Question 1016

Which of the following best represents operating income?

A) Income after financing activities

B) Earnings before interest and taxes

C) Income from capital gains

D) Income from discontinued operations

Answer: <https://biology-forums.com/index.php?topic=640535>

Question 1017

Accounts receivable typically comprise _____ of a firm's assets.

A) 25%

B) 50%

C) less than 1%

D) 10%

Answer: <https://biology-forums.com/index.php?topic=642530>

Question 1018

Managers of corporations need to act in an ethical manner

A) because ethics violations will be punished by the law.

B) because a business must be trusted by investors, customer and the public if it is to succeed.

C) because business managers must answer to a higher authority.

D) because ethical behavior is its own justification.

Answer: <https://biology-forums.com/index.php?topic=640416>

Question 1019

If you were given the components of current assets and of current liabilities, what ratio(s) could you compute?

A) Acid test or quick ratio

B) Average collection period

C) Current ratio

D) Both A and C

E) All of the above

Answer: <https://biology-forums.com/index.php?topic=640602>

Question 1020

Your broker mailed you your year-end statement. You have \$25,000 invested in Amazon, \$18,000 tied up in Boeing, \$36,000 in Caterpillar stock, and \$11,000 in DuPont. The betas for each of your stocks are 1.43 for Amazon, .79 for Boeing, 1.37 for Caterpillar, and 1.71 for DuPont. What is the beta of your portfolio?

A) 1.33

B) 1.31

C) 1.00

D) 5.30

Answer: <https://biology-forums.com/index.php?topic=641051>

Question 1021

Recent surveys of the CFOs of large U.S. companies rank the popularity of major capital budgeting methods in which order?

A) IRR, NPV, Payback, Discounted Payback, Profitability Index

B) Payback, Discounted Payback, Profitability Index, IRR, NPV

C) NPV, Profitability Index, IRR, Discounted Payback, Payback

D) Payback, Discounted Payback, Profitability Index, NPV, IRR

Answer: <https://biology-forums.com/index.php?topic=641432>

Question 1022

The price at which the stock or asset may be purchased from (or sold to) the option writer is referred to as

A) intrinsic value of the option.

B) option premium.

C) open interest.

D) exercise or strike price.

Answer: <https://biology-forums.com/index.php?topic=642953>

Question 1023

A project with a positive NPV may have a negative NPV when flotation costs are considered.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641824>

Question 1024

Random, unforeseeable events can have a significant impact on future cash flows.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641579>

Question 1025

Which of the following industries has the highest average inventory turnover ratio?

- A) Retail clothing stores
- B) Jewelry stores
- C) Automobile dealerships
- D) Supermarkets

Answer: <https://biology-forums.com/index.php?topic=640702>

Question 1026

Since 2015, ABC's inventory management has

- A) improved.
- B) deteriorated.
- C) remained the same.
- D) changed but in an indeterminate manner.

Answer: <https://biology-forums.com/index.php?topic=640667>

Question 1027

Treize Industries' common stock has an expected return of 13% and a beta of 1.3. If the expected risk-free return is 3%, what is the expected return for the market (round your answer to the nearest .1%)?

- A) 7.7%
- B) 9.6%
- C) 10.0%
- D) 10.7%

Answer: <https://biology-forums.com/index.php?topic=641069>

Question 1028

Apple Two Enterprises expects to generate sales of \$5,950,000 for fiscal 2018; sales were \$3,450,000 in fiscal 2017. Assume the following figures for the fiscal year ending 2017: cash \$70,000; accounts receivable \$250,000; inventory \$400,000; net fixed assets \$520,000; accounts payable \$235,000; and accruals \$155,000. Use the percent-of-sales method to forecast cash for the fiscal year ending 2018.

- A) \$120,725
- B) \$75,003
- C) \$216,418
- D) \$319,604

Answer: <https://biology-forums.com/index.php?topic=642175>

Question 1029

A call option on a stock is a financial instrument defined by which of the following statements?

- A) It obligates the investor holding it to sell the stock at the specified price at the stated date in the future.
- B) It obligates the investor holding it to buy the stock at the specified price at the stated date in the future.
- C) It gives the investor holding it the right, but not the obligation, to buy the stock at the specified price at the stated date in the future.
- D) It gives the investor holding it the right, but not the obligation, to sell the stock at the specified price at the stated date in the future.

Answer: <https://biology-forums.com/index.php?topic=642967>

Question 1030

What is a series of equal payments for an infinite period of time called?

- A) A perpetuity

- B) An axiom
- C) A cash cow
- D) An annuity

Answer: <https://biology-forums.com/index.php?topic=640888>

Question 1031

The timing of collections from sales made in past months is an important consideration for cash budgeting.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642265>

Question 1032

Pro forma statements provide single point estimates of each budgeted item.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642220>

Question 1033

The Sarbane-Oxley Act addresses insider trading by members of Congress.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640427>

Question 1034

Assume that two investments have a three-year life and generate the cash flows shown below. Which of the two would you prefer?

Year Investment A Investment B

1 \$5,000 \$8,000

2 \$5,000 \$5,000

3 \$5,000 \$2,000

- A) Investment A, since it has the most even cash flows
- B) Investment B, since it gives you the largest cash flows in earlier years
- C) Neither, since they both have equal lives
- D) Both investments are equally attractive

Answer: <https://biology-forums.com/index.php?topic=640918>

Question 1035

According to the Modigliani & Miller dividend indifference theorem, if a company decreased its dividend per share, an investor would be forced to sell his common stock at a depressed price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642087>

Question 1036

Toujours 29 has the following record of paying dividends:

2013 \$1.29

2014 \$1.33

2015 \$1.37

2016 \$1.41

2017 \$1.45

What are the arithmetic and geometric average growth rates of DIY's dividend payments?

- A) 2.97%, 2.97%
- B) 29.00%, 28.5%
- C) 3.87%, 3.86%
- D) 4.55%, 4.49%

Answer: <https://biology-forums.com/index.php?topic=641740>

Question 1037

Net working capital refers to which of the following?

- A) Current assets
- B) Current assets minus current liabilities
- C) Current assets minus inventory
- D) Current assets divided by current liabilities

Answer: <https://biology-forums.com/index.php?topic=642290>

Question 1038

Your firm has the following income statement items: sales of \$50,250,000; income tax of \$1,744,000; operating expenses of \$10,115,000; cost of goods sold of \$35,025,000; and interest expense of \$750,000. What is the amount of the firm's income before tax?

- A) \$4,360,000
- B) \$750,000
- C) \$10,865,000
- D) \$25,115,000

Answer: <https://biology-forums.com/index.php?topic=640527>

Question 1039

Alpha's beta is 1.06, the present T-bond rate is 6%, and the return on the S & P 500 is 15.25%. What is Alpha's cost of common equity using the CAPM approach?

- A) 21.25%
- B) 15.81%
- C) 9.25%
- D) 6.32%

Answer: <https://biology-forums.com/index.php?topic=641744>

Question 1040

The cost of common equity using the dividend-growth model is

- A) 11.00%.
- B) 11.32%.
- C) 11.50%.
- D) 11.72%.

Answer: <https://biology-forums.com/index.php?topic=641735>

Question 1041

Tannerly Worldwide's common stock is currently selling for \$48 a share. If the expected dividend at the end of the year is \$2.40 and last year's dividend was \$2.00, what is the rate of return implicit in the current stock price?

Answer: <https://biology-forums.com/index.php?topic=641272>

Question 1042

When computing the NPV of a project, if cash flows are discounted at the real cost of capital, then the cash flows should not be adjusted for inflation. True / False?

Answer: <https://biology-forums.com/index.php?topic=641548>

Question 1043

10,000 bushels of corn currently sells in the U. S. for \$57,300. The current exchange rate is 68.13 rupees to the dollar. If purchasing power parity prevails, what is the price of 10,000 bushels of corn in rupees?

- A) 3,903,849 rupees
- B) 8,410,392 rupees
- C) 68,130 rupees
- D) 1,467,782 rupees

Answer: <https://biology-forums.com/index.php?topic=642731>

Question 1044

A company has the option to pay bond interest or not.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640500>

Question 1045

Fred Handel owns 2000 shares of Haydn Inc. stock which is currently selling for \$18 per share. If the company repurchases 10% of its outstanding shares at \$18 per share and Fred chooses to sell back 200 shares

- A) his investment in the company and his percentage of ownership will each decrease by 10%.
- B) his investment in the company and his percentage of ownership will stay the same.
- C) his investment in the company will decrease by \$3,600 and his percentage of ownership will stay the same.
- D) the value of his remaining shares will increase to \$20 per share and his percentage of ownership will fall by 10%.

Answer: <https://biology-forums.com/index.php?topic=642079>

Question 1046

The agency problem arises due to the separation of ownership and control in a corporation.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640429>

Question 1047

Cumulative voting allows a shareholder to cast all of his or her votes for one director rather than voting on each director separately.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641266>

Question 1048

You have been accepted to study gourmet cooking at Le Cordon Bleu Culinary Institute in Paris, France. You will need \$15,000 every six months (beginning six months from now) for the next three years to cover tuition and living expenses. Mom and Dad have agreed to pay for your education. They want to make one deposit now in a bank account earning 6% interest, compounded semiannually, so that you can withdraw \$15,000 every six months for the next three years. How much must they deposit now?

- A) \$97,026
- B) \$73,760
- C) \$90,000
- D) \$81,258

Answer: <https://biology-forums.com/index.php?topic=640843>

Question 1049

When banks transact in foreign currencies, the direct bid quote is greater than the direct asked quote.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642684>

Question 1050

The cost of debt is equal to one minus the marginal tax rate times the coupon rate of interest on the firm's outstanding debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641757>

Question 1051

Real options can have the effect of

- A) increasing a project's NPV.
- B) reducing a project's risk.
- C) gaining information about future opportunities.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641662>

Question 1052

ABC, Inc. just paid a dividend of \$2. ABC expects dividends to grow at 10%. The return on stocks like ABC, Inc. is typically around 12%. What is the most you would pay for a share of ABC stock?

- A) \$100
- B) \$110
- C) \$120
- D) \$130

Answer: <https://biology-forums.com/index.php?topic=641251>

Question 1053

Spot exchange markets are efficient due to arbitrage forces.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642682>

Question 1054

What is the value (price) of a bond that pays \$400 semiannually for 10 years and returns \$10,000 at the end of 10 years? The market discount rate is 10% paid semiannually.

Answer: <https://biology-forums.com/index.php?topic=640930>

Question 1055

How frequently do most firms update their cost of capital?

- A) Rarely, if ever
- B) At least once a year
- C) Daily
- D) Only when there are major changes in the firm's capital structure.

Answer: <https://biology-forums.com/index.php?topic=641778>

Question 1056

Which of the following is NOT a component of a firm's capital structure?

- A) Preferred stock
- B) Bonds
- C) Common stock
- D) Accounts payable
- E) Retained earnings

Answer: <https://biology-forums.com/index.php?topic=641830>

Question 1057

The term stockholder is equivalent to

- A) general partner.
- B) creditor.
- C) shareholder.
- D) stakeholder.

Answer: <https://biology-forums.com/index.php?topic=640393>

Question 1058

Pony Corporation is undertaking a capital budgeting analysis. The firm's beta is 1.5. The rate on 10-year U.S. Treasury bonds is 5%, and the return on the S & P 500 index is 12%. What is the cost of Pony's common equity?

- A) 13.3%
- B) 15.5%
- C) 17.7%
- D) 19.9%

Answer: <https://biology-forums.com/index.php?topic=641733>

Question 1059

If a loan of \$10,000 is paid back in equal annual end-of-year payments of \$2,570.69 during the next five years, what is the annual interest rate on the loan?

- A) 2%
- B) 5%
- C) 9%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=640860>

Question 1060

What is the value of a preferred stock that pays a \$2.10 dividend to an investor with a required rate of return of 6% (round your answer to the nearest \$1)?

- A) \$35
- B) \$23
- C) \$17
- D) \$21

Answer: <https://biology-forums.com/index.php?topic=641312>

Question 1061

From the scrambled list of items presented in Table 4, prepare an income statement Dooley Sportswear Company. Not all items from Table 4 will be used.

Answer: <https://biology-forums.com/index.php?topic=640547>

Question 1062

One reason for international investment is that

- A) the economies of many countries are growing faster than the U.S.
- B) price-earnings (P/E) ratios are higher in foreign countries.
- C) doing business in foreign countries is simpler than in the U. S.
- D) raw materials are typically cheaper in other countries than in the U. S.

Answer: <https://biology-forums.com/index.php?topic=642775>

Question 1063

When the impact of taxes is considered, but the impact of financial distress is ignored, the optimal financial structure is

- A) all equity.
- B) an equal mix of debt and equity.
- C) any mix of debt and equity. The proportions will not matter.
- D) all, or nearly all, debt.

Answer: <https://biology-forums.com/index.php?topic=641854>

Question 1064

The 6 month interest rate in the U.S. is 2%. The spot exchange rate for Australian dollars is 1.4063 to the U.S.dollar. The 6 months forward rate is 1.4259 to the U.S. dollar. These prices indicate that the 6 month risk-free rate in Australia is

- A) 6.00%.
- B) 0.34%.
- C) 0.60%.
- D) 3.42%.

Answer: <https://biology-forums.com/index.php?topic=642724>

Question 1065

A seller of commodities who has entered into forward contracts with customers will profit if prices fall before the purchase is concluded.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642925>

Question 1066

Which of the following is the best example of an incremental cash inflow/outflow?

- A) Cash flows that are achieved by diverting sales from other projects of the firm
- B) Cash flows that are associated with the financing of a project
- C) Cash flows that occur a little at a time
- D) What the total cash flows will be to the company if the project is undertaken as opposed to what they would have been if the project had not been undertaken

Answer: <https://biology-forums.com/index.php?topic=641455>

Question 1067

It is possible for after-tax operating cash flows to be positive when accounting income is negative.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641535>

Question 1068

What is the present value of \$12,500 to be received 10 years from today? Assume a discount rate of 8% compounded annually and round to the nearest \$1.00.

- A) \$5,790
- B) \$11,574
- C) \$9,210
- D) \$17,010

Answer: <https://biology-forums.com/index.php?topic=640780>

Question 1069

Assume that on January 1 a firm announces that on June 30 they will pay a dividend of \$2.50 per share to holders of record on March 30. When does the stock sell ex-dividend?

- A) January 5
- B) April 5
- C) March 28
- D) July 5
- E) June 25

Answer: <https://biology-forums.com/index.php?topic=641961>

Question 1070

What is the geometric average return on her stock if she sells it five years from today?

- A) -2.33%
- B) .59%
- C) 3.67%
- D) 4.88%

Answer: <https://biology-forums.com/index.php?topic=640970>

Question 1071

Self-insurance is the practice of

- A) holding reserves within the firm to cover potential losses.
- B) CEO's holding large life insurance policies on themselves, payable to the company.
- C) companies in unrelated businesses forming subsidiaries to cover their insurance needs.
- D) purchasing insurance policies directly rather than through a broker.

Answer: <https://biology-forums.com/index.php?topic=642864>

Question 1072

Which of the following is an example of a sunk cost?

- A) Overhead costs that are associated with a project
- B) Interest expense associated with a project
- C) Market study expenses incurred in order to decide if a firm should accept a project
- D) Depreciation expenses associated with a project

Answer: <https://biology-forums.com/index.php?topic=641456>

Question 1073

A dealer in New York offers to buy U.K. pounds for \$1.4500 and sell them for \$1.4522. The different prices are due to

- A) arbitrage.
- B) a tax on currency transactions.
- C) the bid-ask spread.
- D) supply and demand.

Answer: <https://biology-forums.com/index.php?topic=642636>

Question 1074

Which of the following is most likely to occur if a firm over-invests in net working capital?

- A) The current ratio will be lower than it should be.
- B) The quick ratio will be lower than it should be.
- C) The return on investment will be lower than it should be.
- D) The times interest earned ratio will be lower than it should be.

Answer: <https://biology-forums.com/index.php?topic=642292>

Question 1075

Assume that the interest rate in India is 10% while in Europe it is 3% and that the exchange rate is 65.50 rupees to the euro. What would we expect the 6 month exchange rate to be?

Answer: <https://biology-forums.com/index.php?topic=642767>

Question 1076

T-bills and Treasury bonds are guaranteed by the full faith and credit of the United States and are therefore default-free.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642544>

Question 1077

If an investor holds a stock for three years, the value at the end of three years will always be the initial cost of the stock times $(1 + \text{arithmetic average return})$ to the third power.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640975>

Question 1078

Which of the following transactions does NOT affect the quick ratio?

- A) Land held for investment is sold for cash.
- B) Equipment is purchased and is financed by a long-term debt issue.
- C) Inventories are sold for cash.
- D) Inventories are sold on a credit basis.

Answer: <https://biology-forums.com/index.php?topic=640605>

Question 1079

The expected NPV of a project is the arithmetic average of best case, most likely case, and worst case scenarios.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641620>

Question 1080

Book values are sometimes used to compute the percentage of debt in a firm's capital structure because much corporate debt is infrequently traded and market prices cannot be obtained.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641707>

Question 1081

A machine costs \$10,000, has a three-year life, and has an estimated salvage value of \$1000. It will generate after-tax annual cash flows (ACF) of \$6000 a year, starting next year. If your required rate of return for the project is 10%, what is the NPV of this investment? (Round your answer to the nearest \$1.00.)

- A) \$9,000
- B) \$5,672
- C) \$5,157
- D) -\$1,500

Answer: <https://biology-forums.com/index.php?topic=641352>

Question 1082

Which of the following is considered to be a deficiency of the IRR?

- A) It fails to properly rank capital projects.
- B) It could produce more than one rate of return.
- C) It fails to utilize the time value of money.
- D) It is not useful in accounting for risk in capital budgeting.

Answer: <https://biology-forums.com/index.php?topic=641411>

Question 1083

Clean-up and restoration costs required by government regulations are negative cash flows associated with a project's termination .

True / False?

Answer: <https://biology-forums.com/index.php?topic=641537>

Question 1084

Which of the following statements about exchange rates is true?

- A) Exchange rates are fixed by international agreements.
- B) Exchange rates fluctuate between currencies but are fixed in terms of gold.
- C) Exchange rates fluctuate constantly.
- D) Are regulated by a special committee of the United Nations.

Answer: <https://biology-forums.com/index.php?topic=642583>

Question 1085

A bond's value equals the present value of interest and principal the owner will receive.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641160>

Question 1086

Generic, Inc. has bonds outstanding that mature in 20 years. The bonds have \$1,000 par value, pay interest annually at a rate of 10%, and have a current selling price of \$875.25. The current yield on the bonds is 11.63%

True / False?

Answer: <https://biology-forums.com/index.php?topic=641152>

Question 1087

Project Black Swan requires an initial investment of \$115,000. It has positive cash flows of \$140,000 for each of the next two years. Because of major demolition and environmental clean-up costs, cash flow for the third and final year of the project is \$(170,000).

- A) All possible IRR's for this project are negative.
- B) It is not possible to compute an IRR for this project.
- C) This project might have more than one IRR, but only one MIRR.
- D) The project is unacceptable at any required rate of return. This project might have more than one IRR.

Answer: <https://biology-forums.com/index.php?topic=641387>

Question 1088

Limited liability companies (LLCs) differ from limited partnerships in that

- A) Owners of the LLC are subject to double taxation.
- B) Owners of the LLC have unlimited liability for the firm's debt.
- C) Owners of the LLC are not liable for the firm's debt.
- D) Owners of the LLC may not exceed 12 in number.

Answer: <https://biology-forums.com/index.php?topic=640384>

Question 1089

Reindeer Corp. plans to issue bonds to expand operations. The bonds will have a par value of \$1,000, a 10-year maturity, and a coupon interest rate of 9%, paid semiannually. Current market conditions are such that the bonds will be sold to net \$937.79. The yield-to-maturity of these bonds is 10.65%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641156>

Question 1090

The function of a budget includes to

- A) indicate the amount and time of future financing needs.
- B) provide a basis for corrective action.
- C) provide information for performance evaluations.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642242>

Question 1091

Which of the following will help an analyst determine how well a firm is able to service its debt?

- A) Total liability turnover
- B) Times-interest-earned
- C) Return on debt
- D) Asset ratio

Answer: <https://biology-forums.com/index.php?topic=640648>

Question 1092

Banque de Lyon agrees to sell Golden Socks 1,000,000 euro at a price of \$1.10 to the euro 6 months from today. If the spot price of the euro in six months is \$1.20,

- A) the payoff to Banque de Lyon is \$100,000.
- B) the payoff to Banque de Lyon is (\$100,000).
- C) the payoff to Banque de Lyon is (\$135,000).
- D) the payoff to Golden Socks is (\$100,000).

Answer: <https://biology-forums.com/index.php?topic=642917>

Question 1093

Trade credit is a source of spontaneous financing.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642377>

Question 1094

How many years will it take for an initial investment of \$200 to grow to \$544 if it is invested today at 8% compounded annually?

- A) 8 years
- B) 10 years

C) 11 years

D) 13 years

Answer: <https://biology-forums.com/index.php?topic=640756>

Question 1095

Amalgamated Enterprises is planning to purchase some new equipment. With this new equipment, the company expects sales to increase from \$8,000,000 to \$10,000,000. A portion of the financing for the purchase of the equipment will come from a \$1,000,000 new common stock issue. The company knows that current assets, fixed assets, accounts payable, and accrued expenses increase in direct proportion with sales. The company's net profit margin on sales is 8%, and the company plans to pay 40% of its after-tax earnings in dividends. A copy of the company's current balance sheet is given below:

Amalgamated Enterprises Balance Sheet

Current assets \$3,000,000

Fixed assets 12,000,000

Total assets \$15,000,000

Accounts payable \$4,000,000

Accrued expenses 1,000,000

Long-term debt 3,000,000

Common stock 2,000,000

Retained earnings 5,000,000

Total liabilities and net worth \$15,000,000

Prepare a pro forma balance sheet for Amalgamated for next year using the percent-of-sales method and the information provided above.

Answer: <https://biology-forums.com/index.php?topic=642233>

Question 1096

Marshall Networks, Inc. has a total asset turnover of 2.5 and a net profit margin of 3.5%. The firm has a return on equity of 17.5%. Calculate Marshall's debt ratio.

A) 30%

B) 40%

C) 50%

D) 60%

Answer: <https://biology-forums.com/index.php?topic=640613>

Question 1097

Your rich great, great aunt just passed away at the age of 91. She liked you more than she let on and left you in her will. You will receive 100 British bonds that pay interest forever. The amount of annual interest payments that you will receive is \$5,000. If you could invest your money at 4.25%, how much are these bonds worth today?

A) \$64,480

B) \$197,250

C) \$250,000

D) \$117,647

E) \$55,000

Answer: <https://biology-forums.com/index.php?topic=640896>

Question 1098

The owners of a corporation are liable for the corporation's obligations up to the amount of their investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640397>

Question 1099

Which of the following would be an example of a mandated capital budgeting decision?

A) a powerful political figure wants a manufacturing facility to be located in his district.

B) a solar array installs landscaping to reduce objections from near-by residents.

C) a company must install elevators to comply with the Americans With Disabilities Act (ADA)

D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641333>

Question 1100

There is only one day per month on which a listed option on any stock can expire.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643011>

Question 1101

Which of the following is (are) NOT included in net operating income?

- A) Cost of goods sold
- B) Interest
- C) Taxes
- D) Neither B nor C.

Answer: <https://biology-forums.com/index.php?topic=640537>

Question 1102

South County Fiberoptics projects that it will need \$100 million in total assets to meet the sales projection of \$130 million. The pro forma balance sheet shows accounts payable, \$16 million, accrued expenses, \$4 million, long-term debt, \$20 million and equity, \$65 million. If South County decides to meet discretionary financing needs with 5 year notes payable, how much will it need to borrow?

- A) \$20 million
- B) \$0, the firm has excess funds.
- C) \$10 million
- D) Cannot be calculated without knowing the net profit margin.

Answer: <https://biology-forums.com/index.php?topic=642205>

Question 1103

Why is financial planning important in a highly uncertain financial environment.

Answer: <https://biology-forums.com/index.php?topic=642172>

Question 1104

Which of the following are typical consequences of good capital budgeting decisions?

- A) The firm increases in value.
- B) The firm gains knowledge and experience that may be useful in future decisions.
- C) Good capital budgeting decisions help a company define its core competencies.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=641327>

Question 1105

Francis Peabody just won the \$89,000,000 California State Lottery. The lottery offers the winner a choice of receiving the winnings in a lump sum or in 26 equal annual installments to be made at the beginning of each year. Assume that funds would be invested at 7.65%. Francis is trying to decide whether to take the lump sum or the annual installments. What is the amount of the lump sum that would be exactly equal to the present value of the annual installments? Round off to the nearest \$1.

- A) \$89,000,000
- B) \$38,163,612
- C) \$13,092,576
- D) \$41,083,128

Answer: <https://biology-forums.com/index.php?topic=640819>

Question 1106

The income statement describes the financial performance of a firm over a fixed period such as a quarter or a year.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640543>

Question 1107

Krugman Construction Company is considering the purchase of a new crane at a cost of \$600,000. If the new crane is purchased the old crane will be sold. It was purchased 5 years ago at a cost of \$450,000. To date, the company has taken \$200,000 in depreciation on the old crane. Compute the cash flow that would be realized from selling the old crane under each of the following scenarios. Krugman's marginal tax rate is 30%.

- a. The crane is sold for \$200,000
- b. The crane is sold for \$250,000
- c. The crane is sold for \$300,000

Answer: <https://biology-forums.com/index.php?topic=641564>

Question 1108

What is the expected NPV of the project if the option to expand is not considered?

- A) \$39,539

- B) \$86,924
- C) \$236,924
- D) \$134,309

Answer: <https://biology-forums.com/index.php?topic=641671>

Question 1109

When replacing an existing asset, the cash inflow associated with the sale of the old asset and any related tax effects must be considered and accounted for in the analysis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641470>

Question 1110

You are considering investing in a portfolio consisting of 40% Electric General and 60% Buckstar. If the expected rate of return on Electric General is 16% and the expected return on Buckstar is 9%, what is the expected return on the portfolio?

- A) 12.50%
- B) 13.20%
- C) 11.80%
- D) 10.00%

Answer: <https://biology-forums.com/index.php?topic=640994>

Question 1111

The IRR is the discount rate that equates the present value of the project's future net cash flows with the project's initial outlay.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641426>

Question 1112

Which of the following statements is true?

- A) The stable dividend payout ratio keeps the dollar amount of the dividend stable.
- B) Dividends usually do not increase unless management is convinced that the higher dividend can be maintained in the future.
- C) The dividend policy which allows for an extra dividend at year-end in prosperous years includes a fairly large regular dividend payment per share every year.
- D) All of the above are true.

Answer: <https://biology-forums.com/index.php?topic=642134>

Question 1113

All of the following are classified as non-bank financial intermediaries EXCEPT

- A) stock brokerages.
- B) investment banks.
- C) insurance companies.
- D) hedge funds.

Answer: <https://biology-forums.com/index.php?topic=640469>

Question 1114

Edward Johnson decided to open up a Roth IRA. He will invest \$1,800 per year for the next 35 years. Deposits to the Roth IRA will be made via a \$150 payroll deduction at the end of each month. Assume that Edward will earn 8.75% annual interest compounded monthly over the life of the IRA. How much will he have at the end of 35 years?

- A) \$125,250
- B) \$250,321
- C) \$363,000
- D) \$414,405

Answer: <https://biology-forums.com/index.php?topic=640867>

Question 1115

Millheim Electronics is an American firm operating in a country whose government refuses to allow Millheim to send its earnings out of the country. This is an example of repatriation of profits.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642810>

Question 1116

When using the percent of sales method to construct pro forma balance sheets, assets must equal liabilities plus equity before discretionary financial needs can be projected.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642224>

Question 1117

Industry averages indicate what is typical, but not necessarily what is desirable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640716>

Question 1118

If an investor earns 10% on her investment in the first year and loses 10% the next year, she will have neither a gain nor a loss.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640974>

Question 1119

ABC will purchase a machine that will cost \$2,575,000. Required modifications will cost \$375,000. ABC will need to invest \$75,000 for additional inventory. The machine has an IRS approved useful life of 7 years; it is presumed to have no salvage value. ABC plans to depreciate the machine by using the straight-line method. The machine is expected to increase ABC's sales revenues by \$1,890,000 per year; operating costs excluding depreciation are estimated at \$454,600 per year. Assume that the firm's tax rate is 40%. What is the annual operating cash flow?

- A) \$922,464
- B) \$1,126,287
- C) \$813,563
- D) \$1,029,811

Answer: <https://biology-forums.com/index.php?topic=641503>

Question 1120

According to the modified internal rate of return (MIRR) technique, when a project's MIRR is greater than its cost of capital, the project should be accepted.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641425>

Question 1121

The machine's NPV is

- A) \$1,556.56.
- B) \$2,556.56.
- C) \$1,123.99.
- D) \$2,123.99.

Answer: <https://biology-forums.com/index.php?topic=641499>

Question 1122

A firm's balance sheet provides a representation of the current market value of the company.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640576>

Question 1123

A typical corporate planning process will encompass

- A) a short-term financial plan.
- B) a long-term financial plan.
- C) a strategic plan.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642162>

Question 1124

Which of the following is a spontaneous source of financing?

- A) Accrued expenses
- B) Notes payable
- C) Common stock
- D) Paid-in capital

Answer: <https://biology-forums.com/index.php?topic=642203>

Question 1125

A project has an initial outlay of \$4,000. It has a single payoff at the end of Year 4 of \$6,996.46. What is the IRR for the project (round to the nearest percent)?

- A) 16%
- B) 13%
- C) 21%
- D) 15%

Answer: <https://biology-forums.com/index.php?topic=641380>

Question 1126

In practice, firms tend to increase their dividend

- A) when the stock seems to be underpriced in the market.
- B) Reducing cash to force executives to focus on efficient investment decisions.
- C) only when they believe they can sustain the increased payout indefinitely.
- D) when company is holding more cash than it would like.

Answer: <https://biology-forums.com/index.php?topic=642133>

Question 1127

You deposited \$2,000 in a bank account paying 6% on January 1, 2004, and then you made \$2,000 deposits on January 1 in 2005 and 2006. Which of the following expressions will calculate your bank balance just after the last payment was deposited?

- A) $FV = \$2,000[1.06]^{-1} + \$2,000[1.06]^{-2} + \$2,000[1.06]^{-3}$
- B) $FV = \$2,000[1.06]^1 + \$2,000[1.06]^2 + \$2,000[1.06]^3$
- C) $FV = \$2,000[1.06]^0 + \$2,000[1.06]^1 + \$2,000[1.06]^2$
- D) $FV = \$2,000[1.06]^{-0} + \$2,000[1.06]^{-1} + \$2,000[1.06]^{-2} + \$1,000[1.06]^{-3}$

Answer: <https://biology-forums.com/index.php?topic=640848>

Question 1128

If you invest \$450 today and it increases to \$6,185 at the end of 20 years, what rate of return have you earned?

Answer: <https://biology-forums.com/index.php?topic=640774>

Question 1129

Exchange rate risk

- A) exists when the contract is written in terms of the foreign currency.
- B) exists also in direct foreign investments and foreign portfolio investments.
- C) does not exist if the international trade contract is written in terms of the domestic currency.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642790>

Question 1130

Swenson Oil & Gas allows its customers to prepurchase heating oil in June for the coming winter. Customers who took advantage of the offer prepurchased 400,000 gallons of oil at \$3.50 per gallon. Swenson hedged its position by contracting to purchase 400,000 gallons of oil for November delivery at a price of \$3.00 per gallon. If the November spot price is \$2.75 per gallon, the payoff to Swenson is

- A) \$100,000.
- B) (\$100,000).
- C) \$200,000.
- D) \$0.00.

Answer: <https://biology-forums.com/index.php?topic=642908>

Question 1131

The future value of a complex cash flow growing at the rate of i for periods is its present value multiplied by $(1+i)^n$.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640924>

Question 1132

The market for short-term debt is known as

- A) the bond market.
- B) the notes market.

- C) the capital market.
- D) the money market.

Answer: <https://biology-forums.com/index.php?topic=640484>

Question 1133

The amount of debt in the firm's capital structure should include all interest-bearing debt, both long-term and short-term.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641711>

Question 1134

Spontaneous sources of financing are sources over which the firm has no control.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642365>

Question 1135

What is the expected NPV of the project with the option to expand?

- A) \$310,000
- B) \$155,000
- C) \$110,000
- D) \$300,000

Answer: <https://biology-forums.com/index.php?topic=641665>

Question 1136

An example of an asset management efficiency ratio is the

- A) total asset turnover ratio.
- B) gross profit margin.
- C) times-interest-earned.
- D) return on assets.

Answer: <https://biology-forums.com/index.php?topic=640652>

Question 1137

A firm's payout is calculated as the ratio of retained earnings to earnings before interest and taxes (EBIT).

True / False?

Answer: <https://biology-forums.com/index.php?topic=641987>

Question 1138

Which of the following is a difference between acquiring an asset with a capital lease or using debt to purchase the asset?

- A) The lease does not appear as a liability on the balance sheet.
- B) The lessee can depreciate the asset over the length of the lease rather than over its useful life.
- C) The lessee does not retain the salvage value of the asset.
- D) The lessee is not responsible for repairs, maintenance and insurance on the asset.

Answer: <https://biology-forums.com/index.php?topic=641931>

Question 1139

Reducing dividends will usually have a negative impact on the stock price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642144>

Question 1140

Agency costs occur when managers choose the easiest form of financing over the value maximizing capital structure.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641887>

Question 1141

A firm that wants to know if it has enough cash to meet its bills would be most likely to use which kind of ratio?

- A) Liquidity
- B) Leverage
- C) Efficiency
- D) Profitability

Answer: <https://biology-forums.com/index.php?topic=640655>

Question 1142

The purchasing power parity theory is least likely to apply to the price of

- A) oral surgery.
- B) smart phones.
- C) crude oil.
- D) cane sugar.

Answer: <https://biology-forums.com/index.php?topic=642721>

Question 1143

When forecasting statements, assets always increase proportionately to sales regardless of capacity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642222>

Question 1144

The arithmetic average rate of return takes compounding into effect.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640972>

Question 1145

In 2017, Sunny Electronics expects to sell 100,000 3-D television sets for an average price of \$1,000. Expected production costs are \$600 per unit. In 2018, volume is expected to increase by 10%, while inflation will increase both the sales price and the cost per unit by 3%. In nominal dollars, expected gross profit for 2018 is

- A) \$40 million.
- B) \$45.32 million.
- C) \$48.20 million.
- D) \$50 million.

Answer: <https://biology-forums.com/index.php?topic=641542>

Question 1146

Which of the following best describes a firm's cost of capital?

- A) The average yield to maturity on debt
- B) The average cost of the firm's assets
- C) The rate of return that must be earned on its investments in order to satisfy the firm's investors
- D) The coupon rate on preferred stock

Answer: <https://biology-forums.com/index.php?topic=641687>

Question 1147

Briefly distinguish between sensitivity analysis, scenario analysis, and simulation.

Answer: <https://biology-forums.com/index.php?topic=641621>

Question 1148

Harry just bought a new four-wheel-drive Jeep Cherokee for his lumber business. The price of the vehicle was \$35,000, of which he made a \$5,000 down payment and took out an amortized loan for the rest. His local bank made the loan at 12% interest for five years. He is to pay back the principal and interest in five equal annual installments beginning one year from now. Determine the amount of Harry's annual payment.

- A) \$8,322
- B) \$9,600
- C) \$9,709
- D) \$6,720

Answer: <https://biology-forums.com/index.php?topic=640849>

Question 1149

Consider a project with the following cash flows:

	After-Tax	After-Tax
Accounting Cash Flow		
Year Profits from Operations		
1	\$799	\$750
2	\$150	\$1,000

3 \$200 \$1,200

Initial outlay = \$1,500

Terminal cash flow = 0

Compute the profitability index if the company's discount rate is 10%.

- A) 15.8
- B) 1.61
- C) 1.81
- D) 0.62

Answer: <https://biology-forums.com/index.php?topic=641389>

Question 1150

If ABC must have loan proceeds of \$540,000, then it must borrow

- A) \$540,000
- B) \$600,000
- C) \$486,000
- D) \$660,000.

Answer: <https://biology-forums.com/index.php?topic=642472>

Question 1151

Marjen, Inc. just paid a dividend of \$5. Marjen stock currently sells for \$73.57. The return on stocks like Marjen, Inc. is around 10%. What is the implied growth rate of dividends.

- A) 1%
- B) 3%
- C) 5%
- D) 7%

Answer: <https://biology-forums.com/index.php?topic=641252>

Question 1152

Which of the following policies will reduce a retailer's investment in working capital.

- A) Using cash rather than trade credit for inventory purchases.
- B) accepting major credit cards rather than offering store credit.
- C) keeping unsold seasonal merchandise in storage so that it can be offered again the following year.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642288>

Question 1153

What is the geometric average return of Roddy's Richard's investment?

- A) 3.38%
- B) 4.63%
- C) 6.96%
- D) 8.78%

Answer: <https://biology-forums.com/index.php?topic=640967>

Question 1154

Given the anticipated rate of inflation (i) of 6.13% and the real rate of interest (R) of 7.56%, what is the true inflation premium?

Answer: <https://biology-forums.com/index.php?topic=641223>

Question 1155

The cash budget for Parker Process Meats, Inc. for the fourth quarter of 2014 is given below:

Parker Process Meats, Inc.

Cash Budget for the Three Months Ending December 31, 2014

Cash receipts Oct. Nov. Dec.

Total collections \$31,050 \$4,050 \$49,950

Cash disbursements:

Purchases 44,550 48,600 52,650

Wages and salaries 7,425 7,425 7,425

Other expenses 2,025 1,350 675

Taxes 17,415

Total disbursements \$54,000 \$57,375 \$78,165

The expected sales for the period are as follows:

Oct.: \$86,400 Nov.: \$91,800 Dec.: \$83,700

The total depreciation expense for the period will be \$8,775. An interest payment on outstanding debt of \$15,000 will be made in December. Using the information given, construct a pro forma income statement for the final quarter of 2014 for Parker.

Answer: <https://biology-forums.com/index.php?topic=642274>

Question 1156

What is the annual compounded interest rate of an investment with a stated interest rate of 6% compounded quarterly for seven years (round to the nearest .1%)?

- A) 51.7%
- B) 6.7%
- C) 10.9%
- D) 6.1%

Answer: <https://biology-forums.com/index.php?topic=640803>

Question 1157

Which of the following statements regarding a line of credit is true?

- A) The purpose for which the money is being borrowed must be stated by the borrower.
- B) A line of credit agreement usually fixes the interest rate that will be applied to any extensions of credit.
- C) A line of credit agreement is a legal commitment on the part of the bank to provide the stated credit.
- D) Such agreements usually cover the bo fiscal year.

Answer: <https://biology-forums.com/index.php?topic=642424>

Question 1158

When using EXCEL to find the future value of \$2,000 invested in an account that would earn interest of 7.5% for 18 years, the correct entry would be

- A) =FV(7.5,18,0,-1,000).
- B) =PV(.075,18,0,-1,000).
- C) =FV(7.5,18,0,1,000).
- D) =FV(.075,18,0,-1,000).

Answer: <https://biology-forums.com/index.php?topic=640760>

Question 1159

Au Courant Bakery is a new firm specializing in gluten free pastry products. In attempting to determine what the financial position of the firm should be, the financial manager obtained the following average data for the baking industry for 2017. All data is expressed as a percentage of sales.

Fill in the dollar amounts on Au Courant's pro forma balance sheet assuming 2015 sales are \$450,000.

Au Courant Bakery

Pro Forma Balance Sheet

December 31, 2017

Cash, 2.22% Accounts payable, 6.67%

Accounts receivable , 2.78% Long-term debt , 6.67%

Inventory , 3%

Total current assets ? Common equity, ?

Fixed assets ? Total liabilities and equity, ?

Total assets , 33%

Answer: <https://biology-forums.com/index.php?topic=642232>

Question 1160

Compare and contrast current yield and yield to maturity.

Answer: <https://biology-forums.com/index.php?topic=641168>

Question 1161

Which of the following is NOT true for limited partnerships?

- A) Only limited partners can manage the business.
- B) One general partner must exist who has unlimited liability.
- C) Only the name of general partners can appear in the name of the firm.
- D) Limited partners may sell their interest in the company.

Answer: <https://biology-forums.com/index.php?topic=640378>

Question 1162

Quirk Drugs sold an issue of 30-year, \$1,000 par value bonds to the public that carry a 10.85% coupon rate, payable semiannually. It is now 10 years later, and the current market rate of interest is 9.00%. If interest rates remain at 9.00% until Quirk's bonds mature, what will happen to the value of the

bonds over time?

- A) The bonds will sell at a premium and decline in value until maturity.
- B) The bonds will sell at a discount and rise in value until maturity.
- C) The bonds will sell at a premium and rise in value until maturity.
- D) The bonds will sell at a discount and fall in value until maturity.

Answer: <https://biology-forums.com/index.php?topic=641181>

Question 1163

The cash budget ignores discretionary financing.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642270>

Question 1164

According to the residual dividend payout policy, dividends are considered a residual after

- A) investment financing needs have been met.
- B) preferred stock is issued.
- C) EPS is allocated.
- D) retained earnings are financed.

Answer: <https://biology-forums.com/index.php?topic=642120>

Question 1165

Which of the following is the most probable way in which a shareholder will benefit from a stock split?

- A) The immediately lower share price will attract enough increased interest in the stock to cause the market price to increase on a more consistent basis.
- B) The immediately higher number of shares that an investor owns immediately increases the investor's wealth.
- C) The shareholder can use the immediately increased wealth to borrow more money to buy even more shares at the immediately lower market price.
- D) A shareholder can lose money after a stock split if the market believes that the split was an artificial way of attracting attention to a company that is not well managed.

Answer: <https://biology-forums.com/index.php?topic=642075>

Question 1166

Financial decisions can be difficult because the cost of investments can be estimated with greater confidence than future payoffs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640374>

Question 1167

The rate on six-month T-bills is currently 5%. Andvark Company stock has a beta of 1.69 and a required rate of return of 15.4%. According to CAPM, determine the return on the market portfolio.

- A) 11.15%
- B) 6.15%
- C) 17.07%
- D) 14.11%

Answer: <https://biology-forums.com/index.php?topic=641076>

Question 1168

Al's Fabrication Shop is purchasing a new rivet machine to replace an existing one. The new machine costs \$8,000 and will require an additional cost of \$1,000 for modification and training. It will be depreciated using simplified straight line depreciation over five years. The new machine operates much faster than the old machine and with better quality. Consequently, sales are expected to increase by \$2,100 per year for the next five years. While it is faster, it is fully automated and will result in increased electricity costs for the firm by \$700 per year. It will, however, save about \$850 per year in labor costs. The old machine is 20 years old and has already been fully depreciated. If the firm's marginal tax rate is 28%, compute the after tax incremental cash flows for the new machine for years 1 through 5.

- A) \$2,698
- B) \$450
- C) \$2,124
- D) \$1,620

Answer: <https://biology-forums.com/index.php?topic=641557>

Question 1169

The strategic plan is the most specific and detailed part of the planning process.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642166>

Question 1170

The future value of a single sum

- A) increases as the compound rate decreases.
- B) decreases as the compound rate increases.
- C) increases as the number of compound periods decreases.
- D) increases as the compound rate increases.

Answer: <https://biology-forums.com/index.php?topic=640758>

Question 1171

A corporation's average tax rate will always be lower than or equal to its marginal tax rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640555>

Question 1172

Tropical Fruit Drinks issued \$10,000,000 in bonds to expand its production facilities. After issuing the bonds, the company was 60% debt financed and 40% common equity financed. Tropical intends to retire 20% of the bonds each year for the next 5 years and not to issue any new debt.

- A) All things equal, we would expect Tropical Fruit Drinks cost of capital to decrease gradually over the next 5 years.
- B) All things equal, we would expect Tropical Fruit Drinks cost of capital to increase gradually over the next 5 years.
- C) All things equal, we would expect Tropical Fruit Drinks cost of capital to stay the same for the next 5 years, then decrease rapidly.
- D) All things equal, we would expect Tropical Fruit Drinks cost of capital to stay the same for the next five years, then increase rapidly.

Answer: <https://biology-forums.com/index.php?topic=641776>

Question 1173

Commercial banks in the U.S. often own the corporations they lend to.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640470>

Question 1174

You are considering the purchase of Wahoo, Inc. The firm just paid a dividend of \$4.20 per share. The stock is selling for \$115 per share. Security analysts agree with top management in projecting steady growth of 12% in dividends and earnings over the foreseeable future. Your required rate of return for stocks of this type is 17.5%. If you were to purchase and hold the stock for three years, what would the expected dividends be worth today?

- A) \$12.60
- B) \$9.21
- C) \$17.12
- D) \$15.55
- E) \$11.46

Answer: <https://biology-forums.com/index.php?topic=641257>

Question 1175

What is the expected rate of return on a bond that pays a coupon rate of 9% paid semi-annually, has a par value of \$1,000, matures in five years, and is currently selling for \$1071?

- A) 7.28%
- B) 8.40%
- C) 3.64%
- D) 4.21%

Answer: <https://biology-forums.com/index.php?topic=641131>

Question 1176

Nominal cash flows are expressed in terms of their purchasing power in a base year.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641546>

Question 1177

You have just purchased a car from Friendly Sam. The selling price of the car is \$6,500. If you pay \$500 down, then your monthly payments are \$317.22. The annual interest rate is 24%. How many payments must you make?

Answer: <https://biology-forums.com/index.php?topic=640886>

Question 1178

The hardest step in capital budgeting analysis is estimating the cash flows of a project.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641533>

Question 1179

You sold one July futures contract of pork bellies at \$.59 per lb. One contract represents 40,000 lbs. of pork bellies. By the end of the day, the price had fallen to \$.57 per lb. What was your profit or loss for the day?

- A) \$800 profit
- B) \$356 loss
- C) \$800 loss
- D) There is no profit or loss until the contract expires.

Answer: <https://biology-forums.com/index.php?topic=642945>

Question 1180

Forward exchange rates

- A) reduce uncertainty about future value of currencies.
- B) are always slightly lower than the spot rate.
- C) reflect expectations about the future value of currencies.
- D) both A and C.

Answer: <https://biology-forums.com/index.php?topic=642632>

Question 1181

Transactions carried out in the foreign exchange markets can include direct or indirect exchange rate quotes.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642678>

Question 1182

As the length of time left until expiration increases, the value of call and put options on the stock also increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643175>

Question 1183

You are considering investing in a project with the following possible outcomes:

- Probability of Investment
- States Occurrence Returns
- State 1: Economic boom 15% 16%
- State 2: Economic growth 45% 12%
- State 3: Economic decline 25% 5%
- State 4: Depression 15% -5%

Calculate the expected rate of return for this investment.

- A) 9.8%
- B) 7.0%
- C) 8.3%
- D) 6.3%

Answer: <https://biology-forums.com/index.php?topic=640936>

Question 1184

An investor purchased 20,000,000 Japanese yen at an exchange rate of 113.25 yen to the dollar. the yen cost her _____. Round answer to the nearest dollar.

- A) \$2,265,000,000
- B) \$17,660,044
- C) \$197,414
- D) \$176,600

Answer: <https://biology-forums.com/index.php?topic=642589>

Question 1185

The common stock of Cranberry, Inc. is selling for \$26.75 on the open market. A dividend of \$3.68 is expected to be distributed, and the growth rate of

this company is estimated to be 5.5%. If Richard Dean, an average investor, is considering purchasing this stock at the market price, what is his expected rate of return?

Answer: <https://biology-forums.com/index.php?topic=641271>

Question 1186

Becker.com has an inventory turnover ratio of 52, an accounts receivable balance of \$365,000, average daily credit sales of \$36,500, accounts payable of \$182,500 and cost of goods sold of \$7,993,500. What is Becker's operating cycle to the nearest day?

- A) 17 days
- B) 61 days
- C) 27 days
- D) -27 days

Answer: <https://biology-forums.com/index.php?topic=642401>

Question 1187

Summary data from the quarterly balance sheets of ACH Air Conditioners are shown below.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Current Assets	\$50,000	\$90,000	\$75,000	\$30,000
Fixed Assets	\$60,000	\$60,000	\$60,000	\$60,000
Liabilities	\$70,000	\$110,000	\$95,000	\$50,000
Equity	\$40,000	\$40,000	\$40,000	\$40,000

- a. If ACH follows the self liquidating debt principle, how much long-term debt will be used to finance current assets? Explain your answer briefly.
- b. What would be the highest and lowest levels of temporary debt?

Answer: <https://biology-forums.com/index.php?topic=642379>

Question 1188

The dividend declaration date is the date at which the stock transfer books are to be closed for determining the investor to receive the next dividend payment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641991>

Question 1189

Which of the following is NOT a reason why financial analysts use ratio analysis?

- A) Ratios help to pinpoint a firm's strengths.
- B) Ratios restate accounting data in relative terms.
- C) Ratios are ideal for smoothing out the differences that may exist when comparing firms that use different accounting practices.
- D) Some of a firm's weaknesses can be identified through the usage of ratios.

Answer: <https://biology-forums.com/index.php?topic=640709>

Question 1190

Assume all else remains the same. Which of the following statements is true?

- A) The lower the dividend payout, the less a firm will have to reinvest.
- B) The higher the dividend payout, the more discretionary financing a firm will require.
- C) The lower the dividend payout, the more discretionary financing a firm will require.
- D) The higher the dividend payout, the higher the retention percentage.

Answer: <https://biology-forums.com/index.php?topic=642196>

Question 1191

You are planning to deposit \$10,000 today into a bank account. Five years from today you expect to withdraw \$7,500. If the account pays 5% interest per year, how much will remain in the account eight years from today? Round to the nearest dollar.

Answer: <https://biology-forums.com/index.php?topic=640927>

Question 1192

Tri State Pickle Company preferred stock pays a perpetual annual dividend of 2 1/2% of its par value. Par value of TSP preferred stock is \$100 per share. If investors' required rate of return on this stock is 15%, what is the value of per share?

- A) \$37.50
- B) \$15.00
- C) \$16.67
- D) \$6.00

Answer: <https://biology-forums.com/index.php?topic=641304>

Question 1193

The present value of the total costs over a five year period for Project April is \$50,000. The present value of total costs over the same 5 year period for Project October is \$40,000. The company uses a discount rate of 9%. There are no positive cash flows for these projects, but one or the other is required to comply with government regulations. Which project should be chosen and why?

- A) April because it has a higher net present value (NPV).
- B) Both projects because they will add value to the company.
- C) Neither project because the NPVs are negative.
- D) October because it has a lower net present cost.

Answer: <https://biology-forums.com/index.php?topic=641355>

Question 1194

If SuperMart decides to offer a line of groceries at its discount retail outlet, inventories are expected to increase by \$1,200,000, accounts receivable by \$300,000 and accounts payable by \$500,000. What is the cash outflow for working capital requirements?

- A) \$2,000,000
- B) \$1,700,000
- C) \$1,500,000
- D) \$1,000,000

Answer: <https://biology-forums.com/index.php?topic=641485>

Question 1195

If you have \$375,000 in an account earning 9% annually, what constant amount could you withdraw each year and have nothing remaining at the end of 20 years?

- A) \$7,500
- B) \$18,750
- C) \$66,912
- D) \$5,575
- E) \$41,080

Answer: <https://biology-forums.com/index.php?topic=640863>

Question 1196

Long-term financial plans typically encompass

- A) 6 to 12 months.
- B) about 5 years.
- C) 5 to 10 years.
- D) the entire life cycle of the corporation.

Answer: <https://biology-forums.com/index.php?topic=642157>

Question 1197

Total equity on the balance sheet increases as dividends paid increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640571>

Question 1198

The life of a corporation is not dependent upon the status of the investors.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640402>

Question 1199

Lambda Co. has bonds outstanding that mature in 10 years. The bonds have \$1,000 par value, pay interest annually at a rate of 9%, and have a current selling price of \$1,125. The yield to maturity on the bonds is less than 9%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641151>

Question 1200

Typical securities in which firms invest their temporary cash surpluses include all of the following EXCEPT:

- A) U. S. Treasury Bills.
- B) commercial paper.
- C) high quality corporate bonds.

D) Money Market Mutual Funds.

Answer: <https://biology-forums.com/index.php?topic=642525>

Question 1201

The residual dividend theory indicates that a firm would never pay dividends unless the firm's profits were larger than its equity financing needs. True / False?

Answer: <https://biology-forums.com/index.php?topic=642151>

Question 1202

Investors prefer \$1 today versus \$1 in the future due to

- A) time value of money.
- B) response to incentives.
- C) the need for immediate gratification.
- D) A and B.

Answer: <https://biology-forums.com/index.php?topic=640446>

Question 1203

Given the anticipated rate of inflation (i) of 6.3% and the real rate of interest (R) of 4.7%, find the nominal rate of interest (r).

Answer: <https://biology-forums.com/index.php?topic=641221>

Question 1204

A \$1,000 par value 10-year bond with a 10% coupon rate recently sold for \$900. The yield to maturity

- A) is 10%.
- B) is greater than 10%.
- C) is less than 10%.
- D) cannot be determined.

Answer: <https://biology-forums.com/index.php?topic=641122>

Question 1205

You buy a race horse, which has a winning streak for four years, bringing in \$500,000 per year, and then it dies of a heart attack. If you paid \$1,518,675 for the horse four years ago, what was your annual return over this four-year period?

- A) 8%
- B) 33%
- C) 18%
- D) 12%

Answer: <https://biology-forums.com/index.php?topic=640846>

Question 1206

The DuPont method decomposes return on equity into

- A) return on assets and the debt ratio.
- B) return on assets and the equity multiplier.
- C) operating income and inventory turnover.
- D) net profit margin and fixed asset turnover.

Answer: <https://biology-forums.com/index.php?topic=640614>

Question 1207

As the risk free rate of return increases, the value of call options _____ and the value of put options _____.

- A) decreases, increases
- B) increases, increases
- C) decreases, decreases
- D) increases, decreases

Answer: <https://biology-forums.com/index.php?topic=643045>

Question 1208

How can a currency futures contract be used as a hedge against a potentially dramatic appreciation of a foreign currency that a U.S. company is expecting to convert into U.S. dollars?

- A) The U.S. company should sell the foreign currency using futures contracts.
- B) The U.S. company should buy more foreign currency futures contracts than it should sell.
- C) The U.S. company should buy the foreign currency using futures contracts.

D) This is a standard business situation that would be favorable if it were to happen, so no hedge is needed.

Answer: <https://biology-forums.com/index.php?topic=642965>

Question 1209

What is the project's NPV if success is modest and it is not expanded?

- A) \$10,000
- B) (\$10,000)
- C) \$110,000
- D) The present value of a perpetual cash flow cannot be determined.

Answer: <https://biology-forums.com/index.php?topic=641663>

Question 1210

Cash Conversion Cycle=operating Cycle-Accounts Payable Deferral Period
True / False?

Answer: <https://biology-forums.com/index.php?topic=642414>

Question 1211

Anderson-EOG Inc. is evaluating the the construction of a gas pipeline to bring natural gas from Western New York state to New York City. The controller argues that depreciation has to be included among the expenses. The Treasurer argues that depreciation is irrelevant because it does not affect cash flow. Who is correct?

Answer: <https://biology-forums.com/index.php?topic=641479>

Question 1212

An increase in _____ will decrease the times-interest-earned ratio.

- A) the tax rate
- B) gross profit
- C) interest expense
- D) common stock

Answer: <https://biology-forums.com/index.php?topic=640650>

Question 1213

What is the expected free cash flow if the most likely estimates are used?

- A) \$156,750
- B) \$266,750
- C) \$237,500
- D) \$383,240

Answer: <https://biology-forums.com/index.php?topic=641607>

Question 1214

Risks of foreign direct investment potentially include

- A) exchange rate fluctuations.
- B) political instability.
- C) competition from foreign competitors.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642792>

Question 1215

Which of the following is NOT an advantage of the sole proprietorship?

- A) Limited liability
- B) No time limit imposed on its existence
- C) No legal requirements for starting the business
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640376>

Question 1216

Bonds with a longer time to maturity have less interest rate risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641194>

Question 1217

If the new machine is purchased, operating cash flow for years 1 through 5 will increase or decrease by

- A) Increase \$15,000.
- B) Decrease \$9,900.
- C) Increase \$12,246.
- D) Increase \$5,346.

Answer: <https://biology-forums.com/index.php?topic=641555>

Question 1218

Discuss the advantages of using commercial paper.

Answer: <https://biology-forums.com/index.php?topic=642505>

Question 1219

Which of the following best describes a balance sheet?

- A) Reports cash receipts and cash disbursements for a specific accounting period
- B) Reports investment activities for a specified accounting period
- C) Reports revenues and expenses for a specific accounting period
- D) Reports the amount and composition of assets and liabilities at a specified point in time

Answer: <https://biology-forums.com/index.php?topic=640564>

Question 1220

The expected return on MSFT next year is 12% with a standard deviation of 20%. The expected return on AAPL next year is 24% with a standard deviation of 30%. If James makes equal investments in MSFT and AAPL, what is the expected return on his portfolio?

- A) 20%
- B) 16%
- C) 18%
- D) 25%

Answer: <https://biology-forums.com/index.php?topic=640995>

Question 1221

Grass Gadgets had sales of \$30 million and net income of \$2 million in 2015. Grass paid a dividend of \$1.5 million. Assuming that their beginning balance for retained earnings was \$3 million, calculate their ending balance for retained earnings.

- A) \$2.5 million
- B) \$3 million
- C) \$3.5 million
- D) \$4 million

Answer: <https://biology-forums.com/index.php?topic=640570>

Question 1222

A firm buys on terms of 3/10, net 30. What is the cost of trade credit under these terms?

- A) 55.7%
- B) 47.4%
- C) 31.5%
- D) 23.2%

Answer: <https://biology-forums.com/index.php?topic=642418>

Question 1223

Expropriation of plant and equipment without compensation is an example of financial risk from direct foreign investments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642802>

Question 1224

Petrified Forest Skin Care, Inc. pays an annual perpetual dividend of \$1.70 per share. If the stock is currently selling for \$21.25 per share, what is the expected rate of return on this stock.

- A) 36.13%
- B) 12.5%
- C) 8.0%
- D) 13.6%

Answer: <https://biology-forums.com/index.php?topic=641305>

Question 1225

Charles River Publishing's degree of operating leverage is .5. To increase net operating income from \$3,750,000 to \$3,937,500, it will need to increase sales from \$25,000,000 to

- A) \$37,500,000
- B) \$27,500,000
- C) \$25,093,750
- D) \$26,250,000

Answer: <https://biology-forums.com/index.php?topic=641650>

Question 1226

When replacing old assets with new assets, it is safe to assume that working capital requirements will remain the same.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641561>

Question 1227

Which of the following is NOT a component of return on assets (ROA)?

- A) Total assets
- B) Cost of goods sold
- C) Sales
- D) Leverage

Answer: <https://biology-forums.com/index.php?topic=640669>

Question 1228

The present value of a \$100 perpetuity discounted at 5% is \$1200.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640900>

Question 1229

A company has a capital structure that consists of 50% debt and 50% equity. Which of the following is generally true?

- A) The weighted average cost of capital is less than the cost of equity financing.
- B) The cost of equity financing is greater than the cost of debt financing.
- C) The weighted average cost of capital is calculated on a before-tax basis.
- D) Both A and B.

Answer: <https://biology-forums.com/index.php?topic=641783>

Question 1230

Why is the quick ratio a more refined measure of liquidity than the current ratio?

- A) It measures how quickly cash and other liquid assets flow through the company.
- B) Inventories are omitted from the numerator of the ratio because they are generally the least liquid of the firm's current assets.
- C) It is a quicker calculation to make.
- D) Cash is the most liquid current asset.

Answer: <https://biology-forums.com/index.php?topic=640622>

Question 1231

If instead of a stock dividend, your firm decided to split the stock 2-1, then the number of shares outstanding and their par value per share would be

- A) 1 million; \$4.
- B) 1 million; \$8.
- C) 2 million; \$2.
- D) 2 million; \$4.

Answer: <https://biology-forums.com/index.php?topic=641975>

Question 1232

A credit default swap functions like an insurance policy against the possibility of default on a bond or other security collateralized by debt.
True / False?

Answer: <https://biology-forums.com/index.php?topic=643181>

Question 1233

The Stant Shoe Company established a line of credit with a local bank. The maximum amount that can be borrowed under the terms of the agreement is \$100,000 at an annual rate of 5%. A compensating balance of 10% of the amount borrowed is required. What is the largest amount of money Stant will actually be able to use from the line of credit?

- A) \$90,909
- B) \$90,000
- C) \$111,111
- D) \$100,000

Answer: <https://biology-forums.com/index.php?topic=642440>

Question 1234

A share of common stock just paid a dividend of \$3.25 per share. The expected long-run growth rate for this stock is 18%. If investors require a rate of return of 24%, what should the price of the stock be?

- A) \$57.51
- B) \$62.25
- C) \$71.86
- D) \$63.92

Answer: <https://biology-forums.com/index.php?topic=641258>

Question 1235

When a firm begins to pay dividends, it is signalling that it always expects to have enough cash flow to maintain and increase its dividend payout. True / False?

Answer: <https://biology-forums.com/index.php?topic=642099>

Question 1236

Commercial paper is a source of credit available to large firms with healthy balance sheets. True / False?

Answer: <https://biology-forums.com/index.php?topic=642482>

Question 1237

What are some of the potential risks, other than exchange rate risk, that need to be considered in foreign direct investment decisions.

Answer: <https://biology-forums.com/index.php?topic=642820>

Question 1238

How much money must be put into a bank account yielding 5.5% (compounded annually) in order to have \$250 at the end of five years (round to nearest \$1)?

- A) \$237
- B) \$191
- C) \$187
- D) \$179

Answer: <https://biology-forums.com/index.php?topic=640795>

Question 1239

Timelines can be expressed in terms of

- A) years.
- B) months.
- C) days.
- D) any of the above

Answer: <https://biology-forums.com/index.php?topic=640722>

Question 1240

You are considering investing in U.S. Steel. Which of the following is an example of nondiversifiable risk?

- A) Risk resulting from foreign expropriation of U.S. Steel property
- B) Risk resulting from oil exploration by Marathon Oil (a U.S. Steel subsidiary)
- C) Risk resulting from a strike against U.S. Steel
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640990>

Question 1241

How much money must you pay into an account at the beginning of each of 20 years in order to have \$10,000 at the end of the 20th year? Assume

that the account pays 12% per annum, and round to the nearest \$1.

- A) \$1,195
- B) \$111
- C) \$124
- D) \$139

Answer: <https://biology-forums.com/index.php?topic=640835>

Question 1242

When benchmarking a firm's capital structure, management should compare it

- A) firms in S&P 500.
- B) firms in the same geographic region.
- C) firms recognized for the quality of their management.
- D) firms in similar lines of business.

Answer: <https://biology-forums.com/index.php?topic=641909>

Question 1243

When bankruptcy occurs, the claims of the common shareholders may go unsatisfied.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641265>

Question 1244

Jen and Barry's Ice Cream needs \$20 million in new capital to expand its production facilities. It will use 40% debt and 60% equity. The company's after-tax cost of debt is 5% and the cost of equity is 12.5%. Flotation costs will be 3% for debt and 9% for equity. Compute Jen and Barry's weighted average flotation cost.

- A) 6.6%
- B) 6.0%
- C) 9.5%
- D) 16.1%

Answer: <https://biology-forums.com/index.php?topic=641809>

Question 1245

The minimum rate of return necessary to attract an investor to purchase or hold a security is called the cost of capital.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641695>

Question 1246

It is not legal for a corporation to hold life insurance policies on its employees.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642882>

Question 1247

Stocks with higher betas are usually more stable than stocks with lower betas.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641057>

Question 1248

Obligations under capital leases do not appear as liabilities on the balance sheet.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641936>

Question 1249

Some capital budgeting decisions may be mandated by government regulations.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641338>

Question 1250

Which of the following statements concerning preferred stock is correct?

- A) Preferred stock generally is more costly to the firm than common stock.
- B) Most issues of preferred stock have a cumulative feature.

- C) Preferred dividend payments are tax-deductible.
- D) Preferred stock is a riskier form of capital to the firm than bonds.

Answer: <https://biology-forums.com/index.php?topic=641297>

Question 1251

The NPV of a project based on forecasted cash flows is \$1,000,000. There is a 40% probability that cash flows from the project will be seriously reduced because competitors will enter the market. In this case, if the company did nothing, the NPV would be (\$500,000). The project can also be abandoned after 2 years and NPV will be (\$100,000). What is the expected NPV of the project when the option to abandon is considered. Should the project be accepted?

Answer: <https://biology-forums.com/index.php?topic=641682>

Question 1252

Which of the following is considered the major risk when analyzing projects in a multinational environment?

- A) Currency fluctuations
- B) Inflation
- C) Political risk
- D) Lack of available betas

Answer: <https://biology-forums.com/index.php?topic=641590>

Question 1253

A strong stock market and reasonably good earnings have caused the price of the firm's common stock to increase by 25%.

- A) This will have no effect on the firm's cost of capital.
- B) All things equal, this will increase the firm's cost of capital.
- C) All things equal, this will lower the firm's cost of capital.
- D) This will only affect the cost of capital if the firm uses CAPM to compute the cost of equity.

Answer: <https://biology-forums.com/index.php?topic=641785>

Question 1254

You can purchase one share of Sumter Company common stock for \$80 today. You expect the price of the common stock to increase to \$85 per share in one year. The company pays an annual dividend of \$3.00 per share. What is your expected rate of return for Sumter stock?

Answer: <https://biology-forums.com/index.php?topic=641276>

Question 1255

Since 2015, ABC's liquidity has

- A) improved.
- B) deteriorated.
- C) remained the same.
- D) been variable across components of the liquidity measures.

Answer: <https://biology-forums.com/index.php?topic=640666>

Question 1256

The Times Interest Earned Ratio measures a firm's ability to meet both interest payments and scheduled principal repayments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641845>

Question 1257

Exchange rate risk

- A) arises from the fact that the spot exchange rate on a future date is a random variable.
- B) applies only to certain types of international businesses.
- C) has been phased out due to recent international legislation.
- D) is not a significant factor in foreign investment decisions.

Answer: <https://biology-forums.com/index.php?topic=642788>

Question 1258

Which of the following is the preferred method in estimating a firm's cost of capital?

- A) Consider the cost of a specific source of financing that will be used for a firm's new projects; i.e., the marginal cost of capital.
- B) Calculate the weighted average cost of new capital to be utilized in financing a firm's projects.
- C) Calculate the firm's weighted average CAPM to be utilized in financing a firm's projects.
- D) Calculate the firm's cost of capital using the historical cost of components.

Answer: <https://biology-forums.com/index.php?topic=641773>

Question 1259

What keeps foreign exchange quotes in two different countries in line with each other?

- A) Cross rates
- B) Forward rates
- C) Arbitrage
- D) Spot rates

Answer: <https://biology-forums.com/index.php?topic=642585>

Question 1260

On the income statement, sales revenue, minus cost of goods sold and operating expenses, equals

- A) Net profit.
- B) Retained earnings.
- C) Net income available to preferred shareholders.
- D) Net operating income (EBIT).

Answer: <https://biology-forums.com/index.php?topic=640522>

Question 1261

What is payback for Project Z?

- A) Two years
- B) One year
- C) Zero years
- D) Project Z does not payback the original investment.

Answer: <https://biology-forums.com/index.php?topic=641396>

Question 1262

Well managed firms will always seek to transfer as much risk as possible.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642846>

Question 1263

Abbot Corp has a debt ratio (debt to assets) of 20%. Management is wondering if its current capital structure is too conservative. Abbot Corp's present EBIT is \$4.5 million, and profits available to common shareholders are \$2,910,600, with 600,000 shares of common stock outstanding. If the firm were to instead have a debt ratio of 40%, additional interest expense would cause profits available to stockholders to decline to \$2,851,200, but only 480,000 common shares would be outstanding. What is the difference in EPS at a debt ratio of 40% versus 20%?

- A) \$4.85
- B) \$6.34
- C) \$1.09
- D) \$-0.10

Answer: <https://biology-forums.com/index.php?topic=641923>

Question 1264

Which of the following financial instruments entails the most risk and potentially the highest returns for investors?

- A) debt with a maturity of less than one year
- B) bonds
- C) common stock
- D) preferred stock

Answer: <https://biology-forums.com/index.php?topic=640487>

Question 1265

Which of the following motivates corporations to enter into stock repurchase programs?

- A) Favorable impact on EPS
- B) Expected favorable impact on stock price
- C) To modify the firm's capital structure
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642129>

Question 1266

The operating cycle equals the inventory conversion period plus the accounts payable deferral period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642409>

Question 1267

Which of the following cash flows are NOT considered in the calculation of the initial outlay for a capital investment proposal?

- A) Increase in accounts receivable
- B) The cost of shipping new equipment
- C) The cost of issuing new bonds if the project is financed by a new bond issue
- D) The cost of installing new equipment

Answer: <https://biology-forums.com/index.php?topic=641459>

Question 1268

Dividend payout ratios are generally much lower for small or newly established firms than for large, publicly owned firms.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642001>

Question 1269

The machine's IRR is

- A) less than 0.
- B) greater than 12 percent.
- C) less than 12 percent.
- D) equal to 12 percent.

Answer: <https://biology-forums.com/index.php?topic=641500>

Question 1270

Swenson Oil & Gas allows its customers to prepurchase heating oil in June for the coming winter. If Swenson does not hedge its positions in the futures market

- A) it could make unexpected profits if fuel prices decline.
- B) it could suffer large losses if the winter wholesale cost of fuel rises above the June retail price.
- C) it will make normal profits if winter prices do not change very much from the June spot price.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642904>

Question 1271

If Quick foregoes the discount but does not pay for its purchases until day 40, what is Quick's effective cost of using this source of credit? Assume that no penalty is incurred for late payment.

- A) 18.25%
- B) 36.73%
- C) 24.83%
- D) 24.49%

Answer: <https://biology-forums.com/index.php?topic=642468>

Question 1272

Sprite Communications will erect 20 new transmission towers at a total cost of \$15,000,000. The expansion will increase after-tax operating cash flows by \$2.3 million dollars per year for the next 20 years. Sprite's WACC is 12%. To raise the \$15,000,000, Sprite will need to issue new securities at a weighted average flotation cost of 12%. What is the NPV of the expansion?

Answer: <https://biology-forums.com/index.php?topic=641825>

Question 1273

Which of the following ratios indicates how rapidly the firm's credit accounts are being collected?

- A) Debt ratio
- B) Gross profit margin
- C) Accounts receivable turnover ratio
- D) Fixed asset turnover

Answer: <https://biology-forums.com/index.php?topic=640626>

Question 1274

RAH Inc., a U.S. corporation is evaluating a proposal to construct and lease an office building in Kiev. RAH's weighted average cost of capital is 11%.

The risk free rate in the U.S. is 3.75%. RAH believes that conditions in Kiev warrant a required rate of return that is 12% above the risk-free rate. Cash flows from the hotel project should be discounted at

- A) 23%.
- B) 14.75%.
- C) 15.75%.
- D) 12%.

Answer: <https://biology-forums.com/index.php?topic=642783>

Question 1275

A theory that relates the ratios of spot and forward exchange to differences in interest rates in two countries or currency zones is known as

- A) interest rate parity.
- B) purchasing power parity.
- C) market efficiency.
- D) forward/spot equivalence hypothesis.

Answer: <https://biology-forums.com/index.php?topic=642715>

Question 1276

Which of the following dividend policies would cause dividends per share to fluctuate the most?

- A) Residual dividend policy
- B) Stable dollar dividend
- C) Small, low, regular dividend plus a year-end extra
- D) Small, low, regular dividend

Answer: <https://biology-forums.com/index.php?topic=642122>

Question 1277

The strike price is the

- A) price paid for the option.
- B) price at which the stock or asset may be purchased from the writer.
- C) minimum value of the option.
- D) premium minus the exercise price.

Answer: <https://biology-forums.com/index.php?topic=642987>

Question 1278

Horizon Communications stock pays a fixed annual dividend of \$3.00. Because of lower inflation, the market's required yield on this preferred stock has gone from 12% to 10%. As a result

- A) Horizon's dividend decreased by 6 cents.
- B) the value of Horizon's preferred increased by \$3.00.
- C) the value of Horizon's preferred decreased by \$5.00.
- D) the value of Horizon's preferred increased by \$5.00.

Answer: <https://biology-forums.com/index.php?topic=641306>

Question 1279

The initial investment for this decision is

- A) \$20,000.
- B) \$21,000.
- C) \$27,000.
- D) \$23,000.

Answer: <https://biology-forums.com/index.php?topic=641496>

Question 1280

The internal rate of return (IRR) will increase as the required rate of return of a project is increased.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641421>

Question 1281

The market price of a 20-year, \$1,000 bond that pays 9% interest semiannually is \$774.31. What is the bond's yield to maturity?

Answer: <https://biology-forums.com/index.php?topic=641172>

Question 1282

It is more common in practice for companies to use cash flows estimated in real dollars discounted at the real rate of interest than to use nominal dollars and the nominal discount rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641550>

Question 1283

Waltham Watch Comparable Firms

Debt ratio 33% 42%

Interest -bearing debt ratio 19% 23

Times interest earned ratio 25 20

EBITDA coverage ratio 6 4

From the table above we can conclude

- A) Waltham has a conservative capital structure policies.
- B) Waltham has too much debt.
- C) Waltham uses more leverage than the typical firm in its industry.
- D) Waltham's EPS would be more sensitive than a typical firm's to changes in EBIT.

Answer: <https://biology-forums.com/index.php?topic=641907>

Question 1284

BCD's \$1,000 par value bonds currently sell for \$798.50. The coupon rate is 10%, paid semiannually. If the bonds have five years before maturity, what is the yield to maturity or expected rate of return?

Answer: <https://biology-forums.com/index.php?topic=641169>

Question 1285

The stable dividend policy is the most common.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642150>

Question 1286

What is meant by "dividend clientele"? Give specific examples.

Answer: <https://biology-forums.com/index.php?topic=642115>

Question 1287

Consider the following equally likely project outcomes:

Profit

X Y

Pessimistic prediction \$ 0 \$500

Expected outcome \$ 500 \$500

Optimistic prediction \$1000 \$500

- A) Investors will prefer project X because it potentially offers a higher profit.
- B) Investors will reject both projects because the profit is too low.
- C) Investors will prefer project Y because the expected return is the same as for project X but the outcome is certain.
- D) Since Projects X and Y have the same expected outcomes of \$500, investors will view them as identical in value.

Answer: <https://biology-forums.com/index.php?topic=640431>

Question 1288

The initial outlay involves the immediate cash outflow necessary to purchase the asset and put it in operating order.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641469>

Question 1289

As interest rates, and consequently investors' required rates of return, change over time, the _____ of outstanding bonds will also change.

- A) maturity date
- B) coupon interest payment
- C) par value
- D) price

Answer: <https://biology-forums.com/index.php?topic=641136>

Question 1290

MacHinery Manufacturing Company is considering a three-year project that has a cost of \$75,000. The project will generate after-tax cash flows of \$33,100 in Year 1, \$31,500 in Year 2, and \$31,200 in Year 3. Assume that the appropriate discount rate is 10% and that the firm's tax rate is 40%. What is the project's discounted payback period?

- A) 2.81 years
- B) 2.33 years
- C) 1.22 years
- D) The project never reaches payback.

Answer: <https://biology-forums.com/index.php?topic=641398>

Question 1291

A firm has an issue of preferred stock that pays an annual dividend of \$2.00 per share and currently is selling for \$18.50 per share. Finally, the firm's marginal tax rate is 34%. This firm's cost of financing with new preferred stock is

- A) 10%.
- B) 7.13%.
- C) 10.81%.
- D) 6.6%.

Answer: <https://biology-forums.com/index.php?topic=641741>

Question 1292

The cash flow statement is an alternative term for the balance sheet.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640521>

Question 1293

Profit maximization is not an adequate goal of the firm when making financial decisions because

- A) it does not necessarily reflect shareholder wealth maximization.
- B) it ignores the risk inherent in different projects that will generate the profits.
- C) it ignores the timing of a project's returns.
- D) all of the above are correct.

Answer: <https://biology-forums.com/index.php?topic=640412>

Question 1294

Which of the following would NOT be included as an asset on a corporate balance sheet?

- A) Accounts receivable
- B) Common stock
- C) Inventory
- D) Buildings

Answer: <https://biology-forums.com/index.php?topic=640565>

Question 1295

A friend of yours borrows \$19,500 from the bank at 8% annually to be repaid in 10 equal annual end-of-year installments. The interest paid on this loan in year three is

- A) \$1,336.01.
- B) \$1,560.00.
- C) \$2,906.11.
- D) \$1,947.10.

Answer: <https://biology-forums.com/index.php?topic=640859>

Question 1296

The ZYX Corporation is planning to request a line of credit from its bank and wants to estimate its cash needs for the month of September. The following sales forecasts have been made for 2014:

July \$500,000
August \$400,000
September \$300,000
October \$200,000
November \$100,000

Collection estimates were obtained from the credit collection department as follows: 20% collected within the month of sale; 70% collected the first month following the sale; and 10% collected the second month following the sale. Payments for labor and raw materials are typically made in the month in which these costs are incurred. Total labor and raw material costs each month are 50% of sales. General administrative expenses are \$30,000 per month, lease payments are \$10,000 per month, and depreciation charges are \$20,000 per month. The corporation tax rate is 40%;

however, no corporate taxes are paid in September. Prepare a cash budget for September.

Answer: <https://biology-forums.com/index.php?topic=642276>

Question 1297

For any number of compounding periods per year greater than 1, EAR will always be greater than the APR.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640807>

Question 1298

The income statement represents a snapshot of account balances at one point in time.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640541>

Question 1299

Determine the IRR on the following projects:

- a. Initial outlay of \$35,000 with an after-tax cash flow at the end of the year of \$5,836 for seven years
- b. Initial outlay of \$350,000 with an after-tax cash flow at the end of the year of \$70,000 for seven years
- c. Initial outlay of \$3,500 with an after-tax cash flow at the end of the year of \$1,500 for three years

Answer: <https://biology-forums.com/index.php?topic=641427>

Question 1300

Which of the following scenarios carries the greatest risk of NOT being able to meet required payments (capital expenditure, dividend, interest and principal requirements) totaling \$96 million?

- A) Expected cash flow, \$116 million, standard deviation \$5 million
- B) Expected cash flow, \$107 million, standard deviation \$5.5 million
- C) Expected cash flow, \$112 million, standard deviation \$8 million
- D) Expected cash flow, \$134 million, standard deviation \$38 million

Answer: <https://biology-forums.com/index.php?topic=642842>

Question 1301

Compensating balances increase the APR because the firm must borrow more than it would otherwise need.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642491>

Question 1302

You have just purchased an investment that generates the cash flows that are shown below. If you are able to invest your money at 5.75%, compounded annually, by how much is this investment better or worse than your next best investment worth today?

0 \$(9,000)

- 1 \$1,250
- 2 \$1,585
- 3 \$1,750
- 4 \$2,225
- 5 \$3,450
- A) \$1,260 better
- B) \$533 better
- C) \$(533) worse
- D) \$8,467 better

Answer: <https://biology-forums.com/index.php?topic=640919>

Question 1303

Which of the following is NOT a driving force of the operating profit margin?

- A) The amount of leverage a firm uses.
- B) Cost of goods sold
- C) General and administrative expenses
- D) The unit price of product sold

Answer: <https://biology-forums.com/index.php?topic=640674>

Question 1304

Ronald Slump purchased a real estate investment with the following end-of-year cash flows:

Year EOY Cash Flow

- 1 \$200
- 2 \$-350
- 3 \$-430
- 4 \$950

What is the present value of these cash flows if the appropriate discount rate is 20%?

- A) \$178
- B) \$160
- C) \$133
- D) \$767

Answer: <https://biology-forums.com/index.php?topic=640914>

Question 1305

Dividend payouts have the effect of lowering the company's debt to equity ratio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642089>

Question 1306

Financial analysis is equally important to large corporations and small businesses.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640593>

Question 1307

Common stockholders expect greater returns than bondholders because

- A) they have no legal right to receive dividends.
- B) they bear greater risk.
- C) in the event of liquidation, they are only entitled to receive any cash that is left after all creditors are paid.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641259>

Question 1308

Why is it important to consider real options in the capital budgeting process? Give two specific examples.

Answer: <https://biology-forums.com/index.php?topic=641683>

Question 1309

Smart and Smiley Incorporated has an average collection period of 74 days. What is the accounts receivable turnover ratio for Smart and Smiley?

- A) 4.93
- B) 2.47
- C) 2.66
- D) 1.68

Answer: <https://biology-forums.com/index.php?topic=640627>

Question 1310

Which of the following statements about bonds is true?

- A) As the maturity date of a bond approaches, the market value of a bond will become more volatile.
- B) Long-term bonds have less interest rate risk than do short-term bonds.
- C) Bond prices move in the same direction as market interest rates.
- D) If market interest rates are above a bond's coupon interest rate, then the bond will sell below its par value.

Answer: <https://biology-forums.com/index.php?topic=641186>

Question 1311

In the absence of taxes or transaction costs, investors

- A) would prefer immediate dividends to future capital gains.
- B) who did not want a dividend could use dividends to purchase more shares.
- C) could create their own dividends by selling the appropriate number of shares.
- D) Both B and C are correct.

Answer: <https://biology-forums.com/index.php?topic=642051>

Question 1312

Why do investors prefer receiving cash sooner rather than later, according to finance theory?

- A) Incremental profits are greater than accounting profits.
- B) Money received earlier can be reinvested and returns can be increased.
- C) Tax considerations are important when investing.
- D) Diversification leads to increased value.

Answer: <https://biology-forums.com/index.php?topic=640440>

Question 1313

The present value of a single sum

- A) increases as the discount rate decreases.
- B) decreases as the discount rate decreases.
- C) increases as the number of discount periods increases.
- D) increases as the discount rate increases.
- E) none of the above.

Answer: <https://biology-forums.com/index.php?topic=640792>

Question 1314

The _____ designates the date on which the stock transfer books are closed in regard to a dividend payment.

- A) declaration date
- B) ex-dividend date
- C) date of record
- D) payment date

Answer: <https://biology-forums.com/index.php?topic=641971>

Question 1315

The capital structure that minimizes the weighted average cost of capital will also

- A) maximize EPS for any given level of EBIT.
- B) minimize the value of the firm.
- C) minimizes bankruptcy costs.
- D) maximize the price per share of common stock.

Answer: <https://biology-forums.com/index.php?topic=641916>

Question 1316

Wireless Communications has a total asset turnover of 2.66, total liabilities of \$1,004,162, and sales revenues of \$7,025,000. What is Wireless's debt ratio?

- A) 38.0%
- B) 14.3%
- C) 26.7%
- D) 81.1%

Answer: <https://biology-forums.com/index.php?topic=640647>

Question 1317

Portfolio returns can be calculated as the geometric mean of the returns on the individual assets in the portfolio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641011>

Question 1318

Holding all other variables constant, which of the following would INCREASE net working capital for given year on a project?

- A) Allowing customers less time to pay for purchases
- B) Taking longer to pay suppliers
- C) Increasing inventory levels
- D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=641462>

Question 1319

In recent years, managers who wish to prioritize investment opportunities over cash distributions to shareholders would be more likely to favor a residual dividend policy over stock repurchase offers.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642149>

Question 1320

Which of the following best measures an asset's risk?

- A) Expected return
- B) The standard deviation
- C) The probability distribution
- D) The cash return

Answer: <https://biology-forums.com/index.php?topic=640941>

Question 1321

You are evaluating the purchase of Cellars, Inc. common stock that just paid a dividend of \$1.80. You expect the dividend to grow at a rate of 12% for the next three years. You plan to hold the stock for three years and then sell it. You estimate that a required rate of return of 17.5% will be adequate compensation for this investment. Calculate the present value of the expected dividends.

- A) \$4.91
- B) \$5.40
- C) \$9.80
- D) \$6.80

Answer: <https://biology-forums.com/index.php?topic=641233>

Question 1322

An amortized loan is a loan paid in unequal installments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640877>

Question 1323

Manheim Candles is considering a project with the following incremental cash flows. Assume a discount rate of 10%.

Year Cash Flow

0 (\$20,000)

1 0

2 \$30,000

3 \$30,000

Calculate the project's MIRR. (Round to the nearest whole percentage.)

- A) 31%
- B) 47%
- C) 53%
- D) 61%

Answer: <https://biology-forums.com/index.php?topic=641390>

Question 1324

Junk bonds

- A) pay little or no interest.
- B) are commonly used to finance municipal waste disposal facilities.
- C) are issued by the U. S. Treasury Department.
- D) have yields that are considerably higher than those of the highest rated bonds.

Answer: <https://biology-forums.com/index.php?topic=641203>

Question 1325

Increased taxes on the sale of the old machine are

- A) \$1,487.50.
- B) \$2,500.50.
- C) \$3,823.50.
- D) \$4,312.50.

Answer: <https://biology-forums.com/index.php?topic=641554>

Question 1326

A decrease in the return on equity ratio could be caused by an increase in

- A) tax rate.
- B) cost of goods sold.
- C) total assets.
- D) any of the above

Answer: <https://biology-forums.com/index.php?topic=640632>

Question 1327

The "percentage" used in the percent-of-sales calculation can be obtained from

- A) the most recent financial statement item as a percent of current sales.
- B) an average computed over several years.
- C) an analyst's judgment.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642179>

Question 1328

The real discount rate includes expected inflation.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641547>

Question 1329

Stephen's grandmother deposited \$100 in an investment account for him when he was born, 25 years ago. The account is now worth \$1,500. What was the average rate of return on the account?

- A) 6.00%
- B) 16.67%
- C) 15.00%
- D) 11.44%

Answer: <https://biology-forums.com/index.php?topic=640787>

Question 1330

Lemminburg Plastics estimates a 60% probability that sales of pink flamingo lawn ornaments in the summer of 2011 will be 45,000 units, about the same as in 2010. They believe there is a 20% probability that they will go viral and potential sales would be 90,000. There is also a 20% probability that restrictive zoning ordinances will limit sales to 30,000 units. Expected unit sales of the pink flamingos are

- A) 55,000
- B) 51,000
- C) 67,500
- D) 60,000

Answer: <https://biology-forums.com/index.php?topic=641596>

Question 1331

Which of the following assumptions is not required by the percent of sales method?

- A) The inventory turnover will remain constant during the forecast period.
- B) The profit margin will remain constant during the forecast period.
- C) Cash, as a percent of sales, will remain constant throughout the forecast period.
- D) The debt to equity ratio will remain constant throughout the forecast period.

Answer: <https://biology-forums.com/index.php?topic=642183>

Question 1332

XYZ, Inc. is considering adding a product line that would utilize floor space in their manufacturing plant which is currently used for storage. XYZ will need to rent new storage space elsewhere. The floor space would be considered a(n)

- A) variable cost.
- B) opportunity cost.
- C) sunk cost.
- D) irrelevant cash flow.

Answer: <https://biology-forums.com/index.php?topic=641493>

Question 1333

Workers' compensation insurance provides coverage for on-the-job injuries suffered by employees.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642878>

Question 1334

Stoneberg Printers purchased a press 4 years ago at a cost of \$500,000. They are evaluating a more efficient replacement press which will cost \$750,000. Both the old press and the replacement would be depreciated using 5 year MACRS. What would be the change in depreciation expense in

the first year if the new press is purchased?

- A) \$42,500 increase
- B) \$92,500 increase
- C) \$57,500 decrease
- D) \$150,000 increase

Answer: <https://biology-forums.com/index.php?topic=641444>

Question 1335

Which of the following abilities are crucial for risk analysis?

- A) A knowledge of marketing
- B) A knowledge of cost accounting
- C) A knowledge of economics
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641570>

Question 1336

EPS at the indifference level of EBIT is

- A) \$3.17.
- B) \$4.80.
- C) \$5.27.
- D) \$5.90.

Answer: <https://biology-forums.com/index.php?topic=641927>

Question 1337

Management of a firm's liquidity involves management of the firm's investment in current assets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642540>

Question 1338

The major risks assumed by firms include

- A) demand risk.
- B) foreign-exchange risk.
- C) operational risk.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642824>

Question 1339

Most large firms use individual costs of capital to evaluate all projects.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641806>

Question 1340

When the impact of taxes is considered, as the firm takes on more debt

- A) there will be no change in total cash flows.
- B) both taxes and total cash flow to stockholders and bondholders will decrease.
- C) cash flows will increase because taxes will decrease.
- D) the weighted average cost of capital will increase.

Answer: <https://biology-forums.com/index.php?topic=641855>

Question 1341

Timelines are always expressed in years.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640731>

Question 1342

If management expects interest rates to rise and credit to tighten in the near future, it should consider

- A) increasing its use of commercial paper and loans secured by current assets.
- B) decreasing the use of spontaneous financing.
- C) decreasing the level of permanent financing.

D) increasing the level of permanent financing.

Answer: <https://biology-forums.com/index.php?topic=642351>

Question 1343

Snort and Smiley Incorporated has a debt ratio of .42, noncurrent liabilities of \$20,000, and total assets of \$70,000. What is Snort and Smiley's level of current liabilities?

- A) \$8,400
- B) \$9,400
- C) \$12,340
- D) \$10,600

Answer: <https://biology-forums.com/index.php?topic=640635>

Question 1344

A stock dividend increases a firm's retained earnings.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642015>

Question 1345

Capital structure represents the mix of equity and interest-bearing debt used by a firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641708>

Question 1346

National Gridlock's capital structure consisted of \$125 million of debt and \$250 million of equity before it issued bonds to borrow an additional \$125 million. The new funds will be used to finance infrastructure improvements and expansion. The company believes that the project will generate enough cash to retire 1/5 of the bonds each year. How do the borrowing and the repayment plan affect the discount rate(s) that should be used to evaluate this project?

Answer: <https://biology-forums.com/index.php?topic=641790>

Question 1347

Falling oil prices might cause a petroleum company to cut its dividend if it considered the decline long-term or permanent.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642013>

Question 1348

Which of the following is NOT a typical real option in capital budgeting?

- A) The option to expand the project
- B) The option to abandon the project
- C) The option to reduce the scale of a project
- D) The option to discount the project at a lower rate of return

Answer: <https://biology-forums.com/index.php?topic=641674>

Question 1349

Over the period 1995-2015, which pair of investments does not perfectly fit the "higher risk, higher return" pattern?

- A) Government bonds, treasury bills
- B) U.S. equities, corporate bonds
- C) U.S. Equities, international equities
- D) Corporate bonds, international equities

Answer: <https://biology-forums.com/index.php?topic=640951>

Question 1350

The cost of common equity is already on an after-tax basis since dividends paid to common stockholders are not tax-deductible.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641759>

Question 1351

What are the effects of stock splits and stock dividends? Why are they popular?

Answer: <https://biology-forums.com/index.php?topic=642025>

Question 1352

In 2017, Sunny Electronics expects to sell 100,000 3-D television sets for an average price of \$1,000. Expected production costs are \$600 per unit. In 2018, volume is expected to increase by 10%. Inflation will increase the sales price per unit by 3%, but production costs per unit will increase by 5%. In real dollars, expected gross profit for 2018 is

- A) \$44 million.
- B) \$45.32 million.
- C) \$48.20 million.
- D) \$50 million.

Answer: <https://biology-forums.com/index.php?topic=641543>

Question 1353

When investors increase their required rate of return, the cost of capital increases simultaneously.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641697>

Question 1354

The average cost of capital is the appropriate rate to use when evaluating new investments, even though the new investments might be in a higher risk class.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641802>

Question 1355

How is an airline that sells tickets that will be used several months in the future exposed to the risk of rising jet fuel prices? How can it manage that risk?

Answer: <https://biology-forums.com/index.php?topic=642933>

Question 1356

What is the difference between an "ask" quote and a "bid" quote?

Answer: <https://biology-forums.com/index.php?topic=642707>

Question 1357

Your firm has the following income statement items: sales of \$52,000,000; income tax of \$1,880,000; operating expenses of \$9,000,000; cost of goods sold of \$36,000,000; and interest expense of \$800,000. Compute the firm's gross profit margin.

- A) 13.5%
- B) 8.3%
- C) 30.8%
- D) 69.2%

Answer: <https://biology-forums.com/index.php?topic=640529>

Question 1358

Charlie Stone wants to retire in 30 years, and he wants to have an annuity of \$1,000 a year for 20 years after retirement. Charlie wants to receive the first annuity payment at the end of the 30th year. Using an interest rate of 10%, how much must Charlie invest today in order to have his retirement annuity (round to the nearest \$10)?

- A) \$500
- B) \$490
- C) \$540
- D) \$570

Answer: <https://biology-forums.com/index.php?topic=640829>

Question 1359

Butler, Inc.'s return on equity is 17% and management retains 75% of earnings for investment purposes. Based on this information, what will be the firm's growth rate?

- A) 4.25%
- B) 22.67%
- C) 44.12%
- D) 12.75%

Answer: <https://biology-forums.com/index.php?topic=641230>

Question 1360

Green Valley Motels has \$5 million of debt outstanding with a coupon rate of 8.2%. Currently, the yield to maturity on these bonds is 7.3%. If the firm's tax rate is 34%, what is the after-tax cost of debt to Hill Town Motels?

- A) 5.33%
- B) 11.23%%
- C) 4.75%
- D) Cannot be determined because the maturity of the bonds is unknown.

Answer: <https://biology-forums.com/index.php?topic=641730>

Question 1361

Zybeck Corp. projects operating income of \$4 million next year. The firm's income tax rate is 40%. Zybeck presently has 750,000 shares of common stock which have a market value of \$10 per share, no preferred stock, and no debt. The firm is considering two alternatives to finance a new product: (a) the issuance of \$6 million of 10% bonds, or (b) the issuance of 60,000 new shares of common stock. There are no issuance costs for either the bonds or the stock. If Zybeck issues common stock this year, what will projected EPS be next year?

- A) \$2.10
- B) \$2.96
- C) \$2.33
- D) \$1.67

Answer: <https://biology-forums.com/index.php?topic=641921>

Question 1362

If a project has a profitability index greater than 1,

- A) the npv will also be positive.
- B) the irr will be higher than the required rate of return.
- C) the present value of future cash flows will exceed the amount invested in the project.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641379>

Question 1363

Given the existence of taxes and bankruptcy costs, the optimal capital structure is 100% debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641884>

Question 1364

Basic tools of capital structure management include

- A) EBIT-EPS analysis.
- B) comparative profitability ratios.
- C) capital budgeting techniques.
- D) economic value added analysis

Answer: <https://biology-forums.com/index.php?topic=641912>

Question 1365

Which of the following should be considered when assessing the financial impact of business decisions?

- A) The amount of projected earnings
- B) The risk-return tradeoff
- C) The timing of projected earnings; i.e., when they are expected to occur
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=640435>

Question 1366

A quite risky working capital management policy would have a high ratio of

- A) short-term debt to bonds and equity.
- B) short-term debt to total debt.
- C) bonds to property, plant, and equipment.
- D) short-term debt to equity.

Answer: <https://biology-forums.com/index.php?topic=642345>

Question 1367

Accounting break-even analysis uses

- A) free cash flows over the entire life of a project.
- B) sales, variable costs and fixed costs over the entire life of a project.
- C) sales, variable costs and fixed costs for a single period.
- D) free cash flows for a single period.

Answer: <https://biology-forums.com/index.php?topic=641632>

Question 1368

Errors in capital budgeting decisions

- A) tend to average out over time.
- B) decrease the firm's value.
- C) are diminished because the time value of money makes future cash flows less important.
- D) are easily reversed.

Answer: <https://biology-forums.com/index.php?topic=641328>

Question 1369

Financial ratios can highlight a firm's financial performance with regard to liquidity, solvency, and profitability.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640691>

Question 1370

Ingrid Birdman can earn a nominal annual rate of return of 12%, compounded semiannually. If Ingrid made 40 consecutive semiannual deposits of \$500 each, with the first deposit being made today, how much will she accumulate at the end of Year 20? Round off to the nearest \$1.

- A) \$52,821
- B) \$57,901
- C) \$82,024
- D) \$64,132

Answer: <https://biology-forums.com/index.php?topic=640828>

Question 1371

Earnings per share for XYZ, Inc. grew constantly from \$7.99 in 1974 to \$12.68 in 1980. What was the compound annual growth rate in earnings-per-share over the period?

Answer: <https://biology-forums.com/index.php?topic=640773>

Question 1372

Purchasing price parity is more likely to be the case for common commodities than for personal services.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642755>

Question 1373

Which of the following might cause dividend policy to affect shareholder wealth?

- A) Taxes
- B) Transaction costs
- C) Changes in the firm's investment policies
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642027>

Question 1374

Assume that your firm must pay 10,000,000 rupees to an Indian firm. How much will you have to pay in U.S. dollars.

- A) \$1,467,780
- B) \$146,800
- C) \$681,301
- D) \$68,130

Answer: <https://biology-forums.com/index.php?topic=642616>

Question 1375

A project under consideration by Kalia Corporation will require the purchase of new equipment at a cost of \$1,000,000 with a 3 year economic life. Kalia's marginal tax rate is 25%. What is the difference in tax expense in the second year if depreciation is computed using MACRS rates rather than straight line?

- A) \$445,000
- B) \$333,000
- C) \$112,000
- D) \$28,000

Answer: <https://biology-forums.com/index.php?topic=641521>

Question 1376

Profit maximization does not adequately describe the goal of the firm because

- A) profit maximization does not require the consideration of risk.
- B) profit maximization ignores the timing of a project's return.
- C) maximization of dividend payout ratio is a better description of the goal of the firm.
- D) A and B.

Answer: <https://biology-forums.com/index.php?topic=640409>

Question 1377

A company may issue multiple classes of preferred stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641319>

Question 1378

Which of the following portfolios is clearly preferred to the others?

Expected Standard

Return Deviation

A 14% 12%

B 22% 20%

C 18% 16%

A) Investment A

B) Investment B

C) Investment C

D) Cannot be determined

Answer: <https://biology-forums.com/index.php?topic=640989>

Question 1379

The required rate of return on TKF preferred has fallen from 5.75% at the time of issue to the present rate of 5%. The stock now sells for \$115. What was the original price?

- A) \$75.61
- B) \$132.25
- C) \$114
- D) \$100

Answer: <https://biology-forums.com/index.php?topic=641307>

Question 1380

Spinnit, Limited has a debt ratio of .57, current liabilities of \$14,000, and total assets of \$70,000. What is the level of Spinnit, Limited's total liabilities?

- A) \$25,900
- B) \$24,600
- C) \$39,900
- D) \$53,900

Answer: <https://biology-forums.com/index.php?topic=640634>

Question 1381

Assuming equal annual rates, the more frequent the compounding periods in a year, the higher the future value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640769>

Question 1382

The cash return on an investment is calculated as purchase price-selling price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640942>

Question 1383

In measuring cash flows we are interested only in the incremental or differential after-tax cash flows that are attributed to the investment proposal being evaluated.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641475>

Question 1384

Harold Hawkins bought a home for \$320,000. He made a down payment of \$45,000; the balance will be paid off over 30 years at a 6.775% rate of interest. How much will Harold's monthly payments be? Round off to the nearest \$1.

- A) \$1,450
- B) \$1,788
- C) \$3,200
- D) \$1,682

Answer: <https://biology-forums.com/index.php?topic=640845>

Question 1385

Project H requires an initial investment of \$100,000 and the produces annual cash flows of \$50,000, \$40,000, and \$30,000. Project T requires an initial investment of \$100,000 and the produces annual cash flows of \$30,000, \$40,000, and \$50,000. If the required rate of return is greater than 0% and the projects are mutually exclusive

- A) H will always be preferable to T.
- B) T will always be preferable to H.
- C) H and T are equally attractive.
- D) The project rankings will change with different discount rates.

Answer: <https://biology-forums.com/index.php?topic=641348>

Question 1386

Potential risks of using short-term bank loans for permanent assets include

- A) higher costs.
- B) a loss of flexibility.
- C) inability to renew the loans on favorable terms.
- D) falling interest rates.

Answer: <https://biology-forums.com/index.php?topic=642355>

Question 1387

Firms that engage in multiple lines of business make it difficult to assign them to an industry category for ratio analysis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640705>

Question 1388

A trader who simultaneously bought Swiss francs in New York for 1.0222 and sold them in Zurich for 1.0233 would be practicing

- A) simple arbitrage.
- B) inside trading.
- C) compound arbitrage.
- D) parity exploitation.

Answer: <https://biology-forums.com/index.php?topic=642634>

Question 1389

The cost of capital is

- A) the opportunity cost of using funds to invest in new projects.
- B) the rate of return the firm must earn on its investments in order to satisfy the required rate of return of the firm's investors.
- C) the required rate of return for new capital investments which have typical or average risk.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641692>

Question 1390

What might an investor reasonably expect from a company with excess cash and few internal investment growth opportunities?

- A) The company will buy Treasury bills with all the excess cash.
- B) The company will split its stock.

- C) The company will declare a stock dividend.
D) The company will pay a cash dividend or repurchase some of its own shares.

Answer: <https://biology-forums.com/index.php?topic=642045>

Question 1391

A foreign exchange dealer in New York posts an ask price of .01468 for Indian rupees and a bid price of .01470. What is the dealer's profit on the simultaneous purchase and sale of 1 million rupees?

- A) \$20 profit
B) (\$20)loss
C) \$200 profit
D) (\$2) loss

Answer: <https://biology-forums.com/index.php?topic=642655>

Question 1392

A bond paying interest of \$120 per year forever is an example of a perpetuity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640897>

Question 1393

The par value of a bond

- A) never equals its market value.
B) is determined by the investor.
C) generally is \$1,000.
D) is never returned to the bondholder.

Answer: <https://biology-forums.com/index.php?topic=641100>

Question 1394

The yield on a corporate bond with a 20 year maturity would include

- A) only the real rate of interest and expected inflation.
B) the risk-free rate multiplied by 1+ default rate.
C) the risk-free rate plus a default risk premium, a liquidity risk premium and a maturity risk premium.
D) the real rate of interest, the expected inflation rate and a default risk premium.

Answer: <https://biology-forums.com/index.php?topic=641213>

Question 1395

The percent-of-sales method is a commonly used method for estimating a firm's financing needs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642216>

Question 1396

Which of the following is a limitation related to the usage of ratios when reviewing a firm's performance?

- A) Ratios may change with economic conditions or technology.
B) Ratios may be similar for companies of different sizes.
C) Some ratios are percentages while other are multiples.
D) Ratios are usually calculated using end-of-period balances which may not be typical.

Answer: <https://biology-forums.com/index.php?topic=640710>

Question 1397

The Fisher effect can be expressed mathematically as

- A) (nominal rate)= (the real rate of interest) (the inflation rate).
B) (1+ the nominal rate)= (1+the real rate of interest) (1 + the inflation rate).
C) the nominal rate)= the real rate of interest + the inflation rate).
D) the real rate of interest= the nominal rate - the inflation rate).

Answer: <https://biology-forums.com/index.php?topic=641212>

Question 1398

Characteristics of typical bonds include all of the following EXCEPT

- A) the par value.
B) the dividend rate.

- C) the coupon rate
- D) the maturity date.

Answer: <https://biology-forums.com/index.php?topic=640485>

Question 1399

The clientele effect suggests that firms can change their dividend policy frequently with no potential adverse effect on the firm.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642103>

Question 1400

Briefly discuss the factors that multinational firms consider in arriving at capital structure decisions.

Answer: <https://biology-forums.com/index.php?topic=642822>

Question 1401

Which of the following features allows a borrower to redeem or repurchase a bond issue before its maturity date?

- A) the call provision
- B) convertibility
- C) floating rate
- D) the priority of claims

Answer: <https://biology-forums.com/index.php?topic=641110>

Question 1402

Which of the following statements is true?

- A) As a general rule, management would want to reduce the firm's average collection period.
- B) As a general rule, management would want to reduce the firm's accounts receivable turnover ratio.
- C) As a general rule, management would want to increase the firm's average collection period.
- D) As a general rule, a firm is not financially affected by the amount of time required to collect its accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=640629>

Question 1403

The interest payments on corporate bonds are tax-deductible.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640554>

Question 1404

Trading in foreign exchange markets is dominated by

- A) Russian rubles, Indian rupees and Indonesian rupees.
- B) Spanish pesetas, German marks, French francs.
- C) Chinese renminbis, Saudi riyals, pesos of various Latin American countries.
- D) U. S. dollars, the British pound, the euro and the yen.

Answer: <https://biology-forums.com/index.php?topic=642567>

Question 1405

Expected cash flow for a preferred stock primarily consists of

- A) dividend payments .
- B) changes in the price of the stock.
- C) interest payments.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=641315>

Question 1406

A firm's financial structure is defined by the Debt Ratio, while it's capital structure is defined by the Debt to Value ratio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641844>

Question 1407

Gibson Industries is issuing a \$1,000 par value bond with an 8% semi-annual interest coupon rate and that matures in 11 years. Investors are willing to pay \$972 for these bonds. Gibson is in the 34% tax bracket. What will be the after-tax cost of debt of the bond?

Answer: <https://biology-forums.com/index.php?topic=641769>

Question 1408

If the project's internal rate of return is greater than or equal to zero, the project should always be accepted.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641419>

Question 1409

A futures contract is a specialized form of a forward contract distinguished by an organized exchange which encourages confidence in the futures market by allowing for the effective regulation of trading.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643021>

Question 1410

A decrease in the _____ will increase the value of preferred stock.

- A) expected rate of return
- B) life of the investment
- C) dividend paid
- D) both A and C

Answer: <https://biology-forums.com/index.php?topic=641310>

Question 1411

Betty Gilmore plans to sell berry pies at a local farmer's market. The permit and space rental will cost her \$2,000 for the June through August season. The pies will sell for \$7.00. Ingredients and overhead average \$4.00 per pie. She also has to pay five percent of her gross sales to the markets's organizers. How many pies will she need to sell to cover her fixed costs and realize a \$3,000 profit?

- A) 752
- B) 1,667 pies
- C) 1,887 pies.
- D) 1,250 pies

Answer: <https://biology-forums.com/index.php?topic=641629>

Question 1412

A limited partner is liable

- A) for only his or her own share of the partnership's debts.
- B) for his or her own share of the partnership's debts and contingently liable for the other partners shares.
- C) only up to the amount invested by that partner.
- D) for none of the partnership's debts.

Answer: <https://biology-forums.com/index.php?topic=640390>

Question 1413

Which of the following is a source of external capital?

- A) Retained earnings
- B) Inventory
- C) Long-term debt
- D) Operating income (earnings before interest and taxes)

Answer: <https://biology-forums.com/index.php?topic=642200>

Question 1414

Hi Sky Enterprises has total assets of \$3 million, a debt ratio of 30%, and an after-tax profit margin of 11.04% and sales of \$2.5 million. What is Hi Sky's return on equity?

- A) 15%
- B) 35%
- C) 27%
- D) 13%

Answer: <https://biology-forums.com/index.php?topic=640681>

Question 1415

Which of the following policies would appeal to an investor using dividends to increase her retirement income?

- A) Maintaining smoothly increasing dividends from year to year.
- B) A residual dividend policy.

C) Maintaining a constant dividend payout ratio.

D) A stock repurchase plan.

Answer: <https://biology-forums.com/index.php?topic=642139>

Question 1416

Project EII requires an initial investment of \$50,000 and the produces annual cash flows of \$30,000, \$25,000, and \$15,000. Project Ess requires an initial investment of \$60,000 and then produces annual cash flows of \$25,000 per year for the next ten years. The company ranks projects by their payback periods.

A) Projects with unequal lives cannot be ranked using the payback method.

B) Ess will be ranked higher than EII.

C) EII and Ess will be ranked equally.

D) EII will be ranked higher than Ess.

Answer: <https://biology-forums.com/index.php?topic=641393>

Question 1417

If the firm's current fixed assets are sufficient to support the projected level of new sales, then these assets would be projected to remain unchanged for the forecast period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642227>

Question 1418

If an investor must choose between investing in either portfolio X or portfolio Y, then

A) she will always choose portfolio X over portfolio Y.

B) she will always choose portfolio Y over portfolio X.

C) she will be indifferent between investing in portfolio X and portfolio Y.

D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=641000>

Question 1419

Using the following information for McDonovan, Inc.'s stock, calculate their expected return and standard deviation.

State Probability Return

Boom 20% 40%

Normal 60% 15%

Recession 20% (20%)

Answer: <https://biology-forums.com/index.php?topic=640948>

Question 1420

Fibonacci Property Management's balance sheet shows total liabilities of \$5 million and total assets of \$13 million. Interest bearing liabilities total \$3 million (book value). The market value of Fibonacci's equity is \$21 million. Fibonacci's debt ratio is

A) .38.

B) .23.

C) .125.

D) .24.

Answer: <https://biology-forums.com/index.php?topic=641835>

Question 1421

The formula for calculating the present value of a growing perpetuity is $PV = \text{Payment period } 1/(i-g)$

True / False?

Answer: <https://biology-forums.com/index.php?topic=640898>

Question 1422

If you put \$200 in a savings account at the beginning of each year for 5 years and \$300 at the beginning of each year for the next 5 years, how much will be in the account at the end of the 10th year? Assume that the account earns 10%, and round to the nearest \$1.00.

A) \$3,798

B) \$4,178

C) \$4,596

D) \$2,750

Answer: <https://biology-forums.com/index.php?topic=640906>

Question 1423

Which of the following is a conceptual method for keeping the foreign currency market in equilibrium?

- A) The purchasing power parity mechanisms
- B) The balance of trade mechanisms
- C) Government intervention through central banks
- D) The interest rate parity mechanisms

Answer: <https://biology-forums.com/index.php?topic=642747>

Question 1424

As the volatility of a stock's price increases, the value of call options _____ and the value of put options _____.

- A) decreases, increases
- B) increases, increases
- C) decreases, decreases
- D) increases, decreases

Answer: <https://biology-forums.com/index.php?topic=643043>

Question 1425

The nominal interest rate

- A) does not include inflation.
- B) includes inflation and the real rate of interest.
- C) ignores the Fisher effect.
- D) is the rate at which banks lend money to other banks.

Answer: <https://biology-forums.com/index.php?topic=641210>

Question 1426

Firms should hold the minimum amounts of inventories that will not jeopardize productions schedules or the satisfaction of customer expectations.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642563>

Question 1427

Eurobonds are bonds issued in a country different from the one in whose currency the bond is denominated.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641208>

Question 1428

The percentages used in the percent-of-sales method comes from pro forma financial statements.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642215>

Question 1429

Which of the following will happen if the original Modigliani and Miller Theorem is relaxed to include taxes, but not bankruptcy costs?

- A) Increased usage of financial leverage will increase a firm's weighted average cost of capital indefinitely.
- B) Increased usage of financial leverage will lower a firm's weighted average cost of capital indefinitely.
- C) Increased usage of financial leverage will not affect a firm's weighted average cost of capital.
- D) Increased usage of operating leverage will increase a firm's weighted average cost of capital indefinitely.

Answer: <https://biology-forums.com/index.php?topic=641866>

Question 1430

The personal decision to take a year off from work to obtain a graduate degree in business is primarily a(n) _____ decision.

- A) social
- B) financial
- C) ethical
- D) investment

Answer: <https://biology-forums.com/index.php?topic=640371>

Question 1431

If interest expense lowers taxes, why does the WACC not decrease indefinitely with the addition of more debt?

- A) The tax shield effect of debt will result in a lower cost of equity.

- B) Increasing debt too much can result in a greater likelihood of firm failure (financial distress).
C) A firm's common stock price will not be affected by the amount of debt a firm uses.
D) Too much common equity increases the probability of bankruptcy.

Answer: <https://biology-forums.com/index.php?topic=641868>

Question 1432

A company that was most concerned about the impact of price changes in raw materials would use sensitivity analysis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641619>

Question 1433

As the number of monthly payments on a loan increases, the size of each payment _____ and the total interest paid over the life of the loan _____.

- A) increases, decreases
B) decreases, stays the same
C) stays the same, decreases
D) decreases, increases

Answer: <https://biology-forums.com/index.php?topic=640820>

Question 1434

Additional cash needed to fill increased working capital requirements should be included in the initial cost of a product when analyzing an investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641530>

Question 1435

Assume that Zybo, Inc. has sales of \$10 million and inventory of \$2 million. The corporation utilizes the percent-of-sales method of financial forecasting. If Zybo is expected to generate sales of \$14 million next year, what will the firm's investment in inventory be?

- A) \$1.4 million
B) \$2.0 million
C) \$2.8 million
D) None of the above

Answer: <https://biology-forums.com/index.php?topic=642185>

Question 1436

Michael Masury has an opportunity to buy a commercial property. Rents from the property will be \$24,000 and he expects them to increase at a rate of 3% per year annually. His required rate of return on this investment is 12%. At what price would Michael be indifferent to buying or not buying the investment? Round off to the nearest \$1.

- A) \$171,429
B) \$266,667
C) \$800,000
D) \$240,000

Answer: <https://biology-forums.com/index.php?topic=640894>

Question 1437

You are thinking of buying a miniature golf course. It is expected to generate cash flows of \$40,000 per year in years one through four and \$50,000 per year in years five through eight. If the appropriate discount rate is 10%, what is the present value of these cash flows?

- A) \$285,288
B) \$167,943
C) \$235,048
D) \$828,230

Answer: <https://biology-forums.com/index.php?topic=640909>

Question 1438

Which of the following would influence a firm's decision about dividends for large firms?

- A) Ownership control
B) Liquidity position
C) Earnings predictability
D) Both B and C

Answer: <https://biology-forums.com/index.php?topic=642124>

Question 1439

Angie's Sub Shop expects to sell 200,000 subs next year at an average price of \$5.00. Variable cost of a sub is \$3.00. Cash fixed costs are \$85,000, depreciation \$95,000 and the tax rate is 25%. If the price increases to \$5.50 and all other variables remain the same, how much will free cash flow increase?

Answer: <https://biology-forums.com/index.php?topic=641625>

Question 1440

You wish to borrow \$12,000 to be repaid in 60 monthly installments of \$257.93. The annual interest rate is

- A) 10.50%.
- B) 12.75%.
- C) 15.25%.
- D) 6.50%.
- E) 8.80%.

Answer: <https://biology-forums.com/index.php?topic=640864>

Question 1441

In terms of organizational costs, which of the following sequences is generally correct, moving from lowest to highest cost?

- A) General partnership, sole proprietorship, limited partnership, corporation
- B) Sole proprietorship, general partnership, limited partnership, corporation
- C) Corporation, limited partnership, general partnership, sole proprietorship
- D) Sole proprietorship, general partnership, corporation, limited partnership

Answer: <https://biology-forums.com/index.php?topic=640380>

Question 1442

As of December 31, Budget, Inc. had a cash balance of \$50,000. December sales were \$150,000 and are expected to be \$100,000 in January. 20% of sales in any month are cash sales, and 80% of sales are collected during the following month. In January, Budget is expected to have total cash disbursements of \$120,000, and Budget requires a minimum cash balance of \$50,000. Budget's expected cash receipts for January are

- A) \$80,000.
- B) \$100,000.
- C) \$110,000.
- D) \$140,000.

Answer: <https://biology-forums.com/index.php?topic=642259>

Question 1443

Increasing the use of short-term debt versus long-term debt financing will increase profit.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642371>

Question 1444

Because financial planning usually takes place in a highly uncertain environment,

- A) it is rarely worth the time and expense.
- B) time horizons should be limited to a few months.
- C) it is important to develop contingency plans to respond to unexpected events.
- D) it should avoid such specific issues as what sources of financing to use.

Answer: <https://biology-forums.com/index.php?topic=642156>

Question 1445

The security market line (SML) intercepts the Y axis at the risk-free rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641091>

Question 1446

The CAPM approach is used to determine the cost of

- A) debt.
- B) preferred stock.
- C) common equity.
- D) long term funds.

Answer: <https://biology-forums.com/index.php?topic=641742>

Question 1447

The Elvis Alive Corporation, makers of Elvis memorabilia, has a beta of 2.35. The return on the market portfolio is 12%, and the risk-free rate is 2.5%. According to CAPM, what is the risk premium on a stock with a beta of 1.0?

- A) 12.00%
- B) 22.33%
- C) 9.5%
- D) 14.5%

Answer: <https://biology-forums.com/index.php?topic=641074>

Question 1448

A firm that maintains stable cash dividends will generally not increase the dividend unless

- A) a stock split occurs.
- B) the firm merges with another profitable firm.
- C) the firm is sure that a higher dividend level can be maintained.
- D) the price-earnings (P/E) ratio increased steadily over the past five years.

Answer: <https://biology-forums.com/index.php?topic=642125>

Question 1449

Treasury Bills have less default risk than do Government Bonds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640961>

Question 1450

All else constant, an individual would be indifferent between receiving \$2,000 today or receiving a \$200 perpetuity when the discount rate is 10% annually.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640901>

Question 1451

You are considering the purchase of Hytec bonds that were issued 14 years ago. When the bonds were originally sold, they had a 30-year maturity and a 14.375% coupon interest rate that is payable semiannually. The bond is currently selling for \$1,508.72. What is the yield to maturity on the bonds?

- A) 8.50%
- B) 14.38%
- C) 11.11%
- D) 7.67%

Answer: <https://biology-forums.com/index.php?topic=641143>

Question 1452

Trendy Corp. recently declared a 10% stock dividend. As of the date of the announcement, Trendy had 10 million shares outstanding which were selling on the NYSE for \$50 per share. An accounting entry is required on the balance sheet in order to transfer an amount from retained earnings to the common stock and additional paid-in capital accounts. What is the dollar amount of retained earnings that will be transferred from retained earnings to the common stock account as the result of the stock dividend? Assume that the par value of Trendy is \$2 per share.

- A) \$2 million
- B) \$50 million
- C) \$45.45 million
- D) \$12.5 million

Answer: <https://biology-forums.com/index.php?topic=641947>

Question 1453

Which of the following expenses should be included as a cash outlay in the preparation of a cash budget?

- A) The payment of accounts payable
- B) The payment of depreciation expense
- C) The payment of accrued income taxes
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642263>

Question 1454

If a firm chose to increase its debt ratio from 20% to 40%, what is the potential risk?

- A) The average cost of capital would most likely rise.
- B) The price of the firm's common stock would definitely decline.
- C) If economic forces cause a reduction of sales, the firm's EPS might decline.
- D) The firm's WACC might decline.

Answer: <https://biology-forums.com/index.php?topic=641910>

Question 1455

Limited partners may actively manage the business.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640401>

Question 1456

Home Depot stock is currently selling for \$136 per share. Next year's dividend is expected to be \$3.31; next year's earnings per share are expected to be \$6.55. Home Depot's P/E ratio is

- A) .048.
- B) 22.03.
- C) 20.75
- D) 41.08

Answer: <https://biology-forums.com/index.php?topic=641282>

Question 1457

Babbit Corp has a debt ratio (debt to assets) of 40%. Management is wondering if its current capital structure is too conservative. Babbit Corp's present EBIT is \$4.5 million, and profits available to common shareholders are \$2,851,200, with 480,000 shares of common stock outstanding. If the firm were to instead have a debt ratio of 60%, additional interest expense would cause profits available to stockholders to decline to \$2,791,800, but only 384,000 common shares would be outstanding. What is the difference in EPS at a debt ratio of 60% versus 40%?

- A) \$5.94
- B) \$1.33
- C) \$1.09
- D) \$-0.12

Answer: <https://biology-forums.com/index.php?topic=641924>

Question 1458

What is the expected free cash flow for the worst case scenario?

- A) \$153,973
- B) \$43,972
- C) \$84,910
- D) \$383,240

Answer: <https://biology-forums.com/index.php?topic=641609>

Question 1459

Miller/Hershey's preferred stock is selling at \$54 on the market and pays an annual dividend of \$4.20 per share.

- a. What is the expected rate of return on the stock?
- b. If an investor's required rate of return is 9%, what is the value of the stock for that investor?
- c. Considering the investor's required rate of return, does this stock seem to be a desirable investment?

Answer: <https://biology-forums.com/index.php?topic=641324>

Question 1460

Jillian has purchased AAA rated corporate bonds that will mature in 20 years . She plans to sell the bonds in 10 years as she approaches retirement age. The most significant risk she faces is

- A) liquidity risk.
- B) default risk.
- C) maturity risk.
- D) None of the above, the bonds are essentially risk-free.

Answer: <https://biology-forums.com/index.php?topic=641215>

Question 1461

The Security Market Line intercepts the vertical axis at

- A) beta = 1.
- B) the risk-free rate.

C) the market risk premium.
D) the expected return on assets equals the expected rate of return on the market portfolio.
Answer: <https://biology-forums.com/index.php?topic=641081>

Question 1462

A portfolio will always have less risk than the riskiest asset in it if the correlation of assets is less than perfectly positive.
True / False?
Answer: <https://biology-forums.com/index.php?topic=641008>

Question 1463

King Co.'s inventory turnover ratio is 12. Its inventory conversion period is
A) 12 days.
B) 30.4 days.
C) 2.5 days.
D) There is not enough information.
Answer: <https://biology-forums.com/index.php?topic=642383>

Question 1464

A "pop-up" store wants to use vacated space at a shopping mall to sell seasonal merchandise during the months of October, November and December. The rent is \$10,000 per month, but the mall's owners are requiring a payment of \$100,000 on September 1. If the space is vacated in good condition at the end of December, the owners will return \$70,000 to the lessees. How should the \$100,000 be financed?
A) Space is a permanent asset and should be financed with equity or long-term debt.
B) Because the lessee may rent the same or similar space in future years, they should use long-term debt or equity.
C) The space is a temporary asset and should be financed with short-term loans.
D) The space is a temporary asset and should be financed with trade credit.
Answer: <https://biology-forums.com/index.php?topic=642324>

Question 1465

The financial planning process is the responsibility of
A) financial analysts.
B) operations staff.
C) marketing staff
D) financial analysts, marketing staff, and operations staff interacting as a group.
Answer: <https://biology-forums.com/index.php?topic=642163>

Question 1466

What are some of the means by which firms can transfer risk to other parties? Should firms always transfer risks when it is possible to do so?
Answer: <https://biology-forums.com/index.php?topic=642860>

Question 1467

As investors' required rate of return on a bond increases, the value of the bond increases also.
True / False?
Answer: <https://biology-forums.com/index.php?topic=641195>

Question 1468

Murky Pharmaceuticals has issued preferred stock with a par value of \$100 and a 5% dividend. The investors' required yield is 10%. What is the value of a share of Murky preferred?
A) \$100
B) \$75
C) \$50
D) \$25
Answer: <https://biology-forums.com/index.php?topic=641300>

Question 1469

Assuming an after-tax cost of preferred stock of 10% and a corporate tax rate of 34%, a firm must earn at least \$15.15 before tax on every \$100 invested.
True / False?
Answer: <https://biology-forums.com/index.php?topic=641758>

Question 1470

You are considering a portfolio consisting of equal investments in the stocks Northbank Inc. and Tropical Escapes Inc. Returns on the 2 stocks under various conditions are shown below.

Scenario	Return (%)	Return %	Return %
Probability	Northbank	Tropical	Portfolio
0.20	4%	16%	
0.50	10%	10%	
0.30	20%	-10%	

a. Calculate the expected rate of and the standard deviation return of the portfolio.

Answer: <https://biology-forums.com/index.php?topic=641019>

Question 1471

In efficient markets, price rapidly adjust to new information.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640451>

Question 1472

Discuss the primary advantages of the CAPM approach in determining the cost of common equity.

Answer: <https://biology-forums.com/index.php?topic=641763>

Question 1473

Which of the following parties would be interested in an analysis of the firm's financial statements?

- A) investors
- B) creditors
- C) the firm's managers
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=640589>

Question 1474

A AAA rated bond's yield to maturity will be very close to its expected yield.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641158>

Question 1475

Currently, most firms use NPV and IRR as their primary capital-budgeting technique.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641440>

Question 1476

An increase in the current ratio would indicate an increase in

- A) leverage.
- B) liquidity.
- C) return on investment.
- D) operating income.

Answer: <https://biology-forums.com/index.php?topic=640668>

Question 1477

Evidence exists that directors

- A) aggressively represent the interests of shareholders.
- B) are quick to replace or reduce the compensation of underperforming CEOs.
- C) often represent the interests of the managers who nominated them for directorships.
- D) are vigilant in requiring that the firm's assets be used efficiently.

Answer: <https://biology-forums.com/index.php?topic=641237>

Question 1478

Blue's Chips Inc. has a \$1,000 par value bond that is currently selling for \$1,300. It has an annual coupon rate of 7%, paid semiannually, and has nine years remaining until maturity. What is the annual yield to maturity on the bond? (Round to the nearest whole percentage.)

- A) 3.15%
- B) 1.57%
- C) 3.12%
- D) 6.24%

Answer: <https://biology-forums.com/index.php?topic=641142>

Question 1479

Determining the specified amount of money that you will receive at the maturity of an investment is an example of a future value equation.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640767>

Question 1480

What is the present value of \$250 received at the beginning of each year for 21 years? Assume that the first payment is received today. Use a discount rate of 12%, and round your answer to the nearest \$10.

- A) \$1,870
- B) \$2,090
- C) \$2,117
- D) \$3,243

Answer: <https://biology-forums.com/index.php?topic=640823>

Question 1481

The difference between the asked price and the bid price is known as the spread.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642692>

Question 1482

Mutual Funds and ETFs provide the investor a chance to diversify without having to buy shares in numerous corporations.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640472>

Question 1483

An increase in _____ will decrease present value.

- A) the discount rate per period
- B) the original amount invested
- C) the number of periods
- D) both A and C

Answer: <https://biology-forums.com/index.php?topic=640778>

Question 1484

Which of the following statements about bonds is true?

- A) Bond prices move in the same direction as market interest rates.
- B) If market interest rates change, long-term bonds will fluctuate more in value than short-term bonds.
- C) Long-term bonds are less risky than short-term bonds.
- D) If market interest rates are higher than a bond's coupon interest rate, then the bond will sell above its par value.
- E) None of the above.

Answer: <https://biology-forums.com/index.php?topic=641185>

Question 1485

In regard to the agency problem, _____ are the principal owners of a corporation.

- A) shareholders
- B) managers
- C) employees
- D) suppliers

Answer: <https://biology-forums.com/index.php?topic=640417>

Question 1486

Aroma Candles, Inc. is evaluating a project with the following cash flows. The project involves a new product that will not affect the sales of any other project. Which two methods would always lead to the same accept/reject decision for this project, regardless of the discount rate?

Year Cash Flows

0 (\$120,000)

1 \$30,000

2 \$70,000

3 \$90,000

A) Payback and Discounted Payback

B) NPV and Payback

C) NPV and IRR

D) Discounted Payback and IRR

Answer: <https://biology-forums.com/index.php?topic=641410>

Question 1487

Lowell Corporation and Lawrence Corporation each have EBIT of \$4 million. Lowell has no debt and no interest expense; Lawrence has \$2 million in debt at a before-tax rate of 8%. The tax rate is 40%. How much cash does each firm return to its investors.

A) Lowell \$2,400,000, Lawrence \$2,144,000

B) Lowell \$2,400,000, Lawrence \$2,240,000

C) Lowell \$2,400,000, Lawrence \$2,464,000

D) Lowell \$2,400,000, Lawrence \$2,304,000

Answer: <https://biology-forums.com/index.php?topic=641878>

Question 1488

One of the problems associated with profit maximization is that it ignores the timing of a project's return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640423>

Question 1489

Project Eh! requires an initial investment of \$50,000, and has a net present value of \$12,000. Project B requires an initial investment of \$100,000, and has a net present value of \$13,000. The projects are proposals for increasing revenue and are not mutually exclusive. The firm should accept

A) project Eh!.

B) project B.

C) both projects.

D) neither project.

Answer: <https://biology-forums.com/index.php?topic=641362>

Question 1490

Which of the following is true about Preferred Stock?

A) Preferred shareholders always have voting rights.

B) In most cases, if a company fails to pay a preferred dividend when it is due the preferred shareholders have no right to collect that dividend in the future.

C) Preferred dividends must be paid before the company can pay a dividend on its common stock.

D) Like bonds, preferred stock always has a maturity date at which time the issue price must be repaid to shareholders.

Answer: <https://biology-forums.com/index.php?topic=640483>

Question 1491

You are considering investing in a project with the following year-end after-tax cash flows:

Year 1: \$5,000

Year 2: \$3,200

Year 3: \$7,800

If the initial outlay for the project is \$12,113, compute the project's IRR.

A) 14%

B) 10%

C) 32%

D) 24%

Answer: <https://biology-forums.com/index.php?topic=641401>

Question 1492

What is the present value of an investment that pays \$10,000 every year at year-end for the next five years and \$15,000 every year at year-end for years six through 10? The annual rate of interest for the investment is 9%.

A) \$125,000.00

B) \$97,250.00

C) \$135,173.00

D) \$76,827.50

Answer: <https://biology-forums.com/index.php?topic=640861>

Question 1493

Why do firms offer trade credit?

- A) To increase the amount of current assets.
- B) customers expect to be offered trade credit.
- C) Trade credit minimizes collection problems.
- D) Trade credit improves net working capital and the current ratio.

Answer: <https://biology-forums.com/index.php?topic=642537>

Question 1494

Analysis of a machine indicates that it has a cost of \$5,375,000. The machine is expected to produce cash inflows of \$1,825,000 in Year 1; \$1,775,000 in Year 2; \$1,630,000 in Year 3; \$1,585,000 in Year 4; and \$1,650,000 in Year 5. What is the machine's IRR?

- A) 12.16%
- B) 17.81%
- C) 23.00%
- D) 11.11%

Answer: <https://biology-forums.com/index.php?topic=641399>

Question 1495

As market interest rates increase, bond prices decrease.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641192>

Question 1496

Project Black Swan requires an initial investment of \$115,000. It has positive cash flows of \$140,000 for each of the next two years. Because of major demolition and environmental clean-up costs, cash flow for the third and final year of the project is \$(170,000). The company accepts all projects with a payback period of 2 years or less.

- A) The payback rule would reject this project because of its risks are too high.
- B) The payback rule would reject this project because all negative cash flows are added together.
- C) If strictly applied, the payback rule would reject this project.
- D) If strictly applied, the payback rule would accept this project.

Answer: <https://biology-forums.com/index.php?topic=641388>

Question 1497

Capital markets in foreign countries

- A) offer lower returns than those obtainable in the domestic capital markets.
- B) provide international diversification.
- C) in general are becoming less integrated due to the widespread availability of interest rate and currency swaps.
- D) increase portfolio betas.

Answer: <https://biology-forums.com/index.php?topic=642800>

Question 1498

Investing in foreign stocks is one way to improve diversification of a portfolio.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641018>

Question 1499

The cost of trade credit varies with the

- A) size of the cash discount.
- B) length of time between the end of the discount period and the final due date.
- C) length of time between the end of the discount period and when the firm purchased from the supplier.
- D) both A and C.

Answer: <https://biology-forums.com/index.php?topic=642462>

Question 1500

In the event of bankruptcy, preferred stockholders and common stockholders have the same claim on the firm's assets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641318>

Question 1501

What is a series of equal payments for a finite period of time called?

- A) A perpetuity
- B) An axiom
- C) A lump sum
- D) An annuity

Answer: <https://biology-forums.com/index.php?topic=640868>

Question 1502

Storm King Associates has a total asset turnover ratio of 1.90 and a return on total assets of 7.20%. What is Storm King's net profit margin?

- A) 3.79
- B) 13.68
- C) 9.10
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640643>

Question 1503

Each of the following would tend to weaken the semi-strong form Efficient Market Hypothesis EXCEPT:

- A) There is publicly available information that Boeing Aircraft has procured a contract to build 25 planes for the U.S. Government and the price of Boeing quickly goes up.
- B) ACG, Inc. performed well for the past six months, but they just lost a major distribution contract, but the price of ACG stock continues to go up.
- C) Louisville Slugger, Inc., gets a contract to supply bats for Little League play, a contract it never had before, and stock price remains stable.
- D) Muguet Company consistently underperforms the market in October, but outperforms the market in May.

Answer: <https://biology-forums.com/index.php?topic=640977>

Question 1504

The current yield of a bond will equal its coupon rate when the bond is selling at par value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641165>

Question 1505

(2,000)

Total assets \$26,400 \$?

Accounts payable \$4,200 \$ 7,000

Bonds 4,000 4,000

Common stock 15,000 16,000

Retained earnings 3,200 3,800

Total debt and equity \$26,400 \$?

Shark Enterprises, Inc.

Income Statement

Sales \$44,900

Cost of goods sold (22,000)

Gross profit \$12,900

Operating expenses (10,000)

Depreciation (400)

EBIT \$2,500

Interest expense (500)

EBT \$2,000

Taxes (1,000)

Net Income \$1,000

27) Use Shark Enterprises financial statements to determine Enterprise's common stock dividend for 2017.

- A) \$0
- B) \$400
- C) \$600
- D) Cannot be determined with available information

Answer: <https://biology-forums.com/index.php?topic=640533>

Question 1506

What is the value of a bond that has a par value of \$1,000, a coupon rate of \$80 (annually), and matures in 11 years? Assume a required rate of return of 11%, and round your answer to the nearest \$10.

- A) \$320 .66
- B) \$1,011.00
- C) \$813.80
- D) \$790 ,79

Answer: <https://biology-forums.com/index.php?topic=641132>

Question 1507

A decrease in _____ would increase net working capital.

- A) accounts payable
- B) accounts receivable
- C) cash
- D) equipment

Answer: <https://biology-forums.com/index.php?topic=642283>

Question 1508

Working capital management refers to

- A) long-term financing decisions.
- B) the management of cash flows.
- C) investing in product development.
- D) capital structure.

Answer: <https://biology-forums.com/index.php?topic=640369>

Question 1509

As the maturity date of a bond approaches, the bond's market value approaches its par value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641196>

Question 1510

Taxes may have a significant effect on the cost of replacing an old asset with a new asset.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641563>

Question 1511

The cash flow statement shows amounts that the company has earned but for which it has not yet received cash.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640520>

Question 1512

The WACC should be computed using

- A) balance sheet weights and target yields.
- B) weights based on the firm's ideal capital structure and target yields on debt and equity.
- C) market weights and opportunity costs to the firm.
- D) market weights and opportunity costs to investors.

Answer: <https://biology-forums.com/index.php?topic=641780>

Question 1513

Assume that the current price of DEY stock is \$27.50, that a 6 month call option on the stock has a strike or exercise price of \$25.50, the risk free rate is 4%, and that you have calculated $N(d_1)$ as .5476 and $N(d_2)$ as .4432. Use the Black-Scholes model to calculate the price of the option.

- A) \$1.74
- B) \$4.20
- C) 1.98
- D) (\$2.50)

Answer: <https://biology-forums.com/index.php?topic=643151>

Question 1514

Alpha has an outstanding bond issue that has a 7.75% semiannual coupon, a current maturity of 20 years, and sells for \$967.97. The firm's income tax rate is 40%. What should Alpha use as an after-tax cost of debt for cost of capital purposes?

- A) 2.42%
- B) 4.04%
- C) 4.85%
- D) 8.08%

Answer: <https://biology-forums.com/index.php?topic=641725>

Question 1515

If a currency's forward price in U. S. dollars is lower than the spot price, interest rates are higher in the foreign country than they are in the U.S.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642753>

Question 1516

California Investors recently advertised the following claim: Invest your money with us at 21%, compounded annually, and we guarantee to double your money sooner than you imagine. Ignoring taxes, how long would it take to double your money at a nominal rate of 21%, compounded annually?

- A) 330 years
- B) 3.6 years
- C) 9.5 years
- D) 4.8 years

Answer: <https://biology-forums.com/index.php?topic=640785>

Question 1517

Which of the following statements is true?

- A) A stock with a beta less than zero has no exposure to systematic risk.
- B) A stock with a beta greater than 1.0 has lower nondiversifiable risk than a stock with a beta of 1.0.
- C) A stock with a beta less than 1.0 has lower nondiversifiable risk than a stock with a beta of 1.0.
- D) A stock with a beta less than 1.0 has higher nondiversifiable risk than a stock with a beta of 1.0.

Answer: <https://biology-forums.com/index.php?topic=641045>

Question 1518

Considering each action independently and holding other things constant, which of the following actions would increase a firm's discretionary financing needed (the need for additional capital)?

- A) A decrease in the firm's accounts receivable average collection period
- B) An increase in the firm's profit margin
- C) A decrease in the firm's inventory turnover
- D) A decrease in the expected growth rate in sales

Answer: <https://biology-forums.com/index.php?topic=642201>

Question 1519

Scenario analysis is the form of risk analysis

- A) that examines the relationship between total firm cash flows and the NPV of a particular project.
- B) that examines the volatility of NPV.
- C) that examines the impact of key variables such as sales or costs in various combinations.
- D) that examines the impact of key variables such as sales or costs one at a time.

Answer: <https://biology-forums.com/index.php?topic=641589>

Question 1520

So long as a bond sells for an amount above its par value, the coupon interest rate and yield to maturity remain equal.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641191>

Question 1521

The long and short positions on forward contracts will always have equal and opposite payoffs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642919>

Question 1522

If a company has a return on equity of 25% and wants a growth rate of 10%, how much of ROE should be retained?

- A) 40%
- B) 50%

- C) 60%
- D) 70%

Answer: <https://biology-forums.com/index.php?topic=641231>

Question 1523

Firms should compare their gross, operating and net profit margins to past years and other companies in order to

- A) evaluate the firm's performance.
- B) identify expenses that seem to be out-of-line
- C) better manage the reporting of the firm's earnings.
- D) Both A and B.

Answer: <https://biology-forums.com/index.php?topic=640540>

Question 1524

We typically expect to find rapidly growing firms to have high payout ratios.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642143>

Question 1525

Participants in foreign exchange trading include

- A) importers and exporters.
- B) investors and portfolio managers.
- C) currency traders.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642569>

Question 1526

Mutually exclusive projects may be ranked differently when higher or lower discount rates are used.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641372>

Question 1527

What is the expected free cash flow for the best case scenario?

- A) \$414,400
- B) \$330,000
- C) \$394,500
- D) \$383,240

Answer: <https://biology-forums.com/index.php?topic=641608>

Question 1528

Once a cash discount period has passed

- A) one should pay immediately.
- B) there is no financial incentive to pay before the final due date.
- C) one should pay after the final due date.
- D) cannot be determined from the information.

Answer: <https://biology-forums.com/index.php?topic=642436>

Question 1529

Mork Pharmaceuticals believes that changes in health insurance may increase demand by as much as 10%, but also lower prices by as much as 10%. It is also concerned that the cost of materials may increase as much as 10% and the company may or may not be able to pass these higher costs on to its customers. To estimate expected, best case and worst case results, Mork should use

- A) sensitivity analysis.
- B) scenario analysis.
- C) political risk analysis.
- D) probability analysis.

Answer: <https://biology-forums.com/index.php?topic=641600>

Question 1530

There is a 30% probability that an office building will be sold after 5 years for \$30 million, a 50% probability that it will be sold for \$20 million and a 20% probability that it will be sold for \$10 million. What is the expected value of the office building in 5 years?

- A) \$20 million
- B) \$21 million
- C) \$30 million
- D) \$10 million

Answer: <https://biology-forums.com/index.php?topic=641593>

Question 1531

Jain's Pharmaceuticals is installing new lab equipment at a cost of \$5 million with an economic life of 5 years. Jain's marginal tax rate is 35%. What is the difference in tax expense in the second year if depreciation is computed using MACRS rates rather than straight line?

- A) \$350,000 more
- B) \$210,000 more
- C) \$350,000 less
- D) \$210,000 less

Answer: <https://biology-forums.com/index.php?topic=641520>

Question 1532

Established firms in need of additional capital can raise it in the secondary market.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640503>

Question 1533

In the absence of taxes, transaction costs, or changes in a firm's operating or investment policies

- A) the greater the payout ratio, the greater the share price of the firm.
- B) the price of a share of stock is not affected by dividend policy.
- C) the firm should retain earnings so stockholders will receive a capital gain.
- D) the firm should pay a dividend only after current equity financing needs have been met.

Answer: <https://biology-forums.com/index.php?topic=642041>

Question 1534

Incremental cash flows from a project =

- A) Firm cash flows without the project plus or minus changes in net income.
- B) Firm cash flows with the project plus firm cash flows without the project.
- C) Firm cash flows with the project minus firm cash flows without the project.
- D) Firm cash flows without the project plus or minus changes in revenue with the project.

Answer: <https://biology-forums.com/index.php?topic=641445>

Question 1535

Maximization of shareholder wealth as a goal is superior to accounting profit maximization because

- A) it considers the time value of the money.
- B) following the shareholder wealth maximization goal will ensure high stock prices.
- C) accounting profits are not the same as cash flows.
- D) A and C.

Answer: <https://biology-forums.com/index.php?topic=640407>

Question 1536

Plimoth Plantation's overall WACC is 11%. It has an opportunity to accept a project that involves nearly riskless cash flows, but will earn only 7%. This project will require a significant portion of the firm's capital. If Plimoth accepts this project,

- A) the value of the company will fall because it's WACC will fall.
- B) the value of the company will fall because it's average rate of return on investments will fall.
- C) the value of the company will rise because its WACC will fall.
- D) both it's average rate of return and its WACC should fall.

Answer: <https://biology-forums.com/index.php?topic=641793>

Question 1537

A(n) _____ is a contract that requires the holder to buy or sell a stated commodity at a specified price at a specified time in the future.

- A) warrant
- B) option
- C) futures
- D) convertible contract

Answer: <https://biology-forums.com/index.php?topic=642995>

Question 1538

The decision to purchase insurance is justified if the cost of the contract is less than the expected loss.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642886>

Question 1539

What factors should we consider when selecting a source of short-term credit?

- A) Effective cost and availability
- B) Liquidity and profitability
- C) Historical trend analysis and liquidity
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=642434>

Question 1540

The goal of profit maximization ignores the timing of profit.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640425>

Question 1541

Banks that are financial intermediaries generate earnings when they facilitate the transfer of money from savers to borrowers by paying savers a smaller return than they demand from borrowers.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640475>

Question 1542

The firm financed completely with equity capital has a cost of capital equal to the required return on common stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641752>

Question 1543

Chandler Corporation has 1 million shares outstanding. The current price per share is \$20. If the company decides to pay a \$2 million dollar dividend, the company will have _____ shares outstanding worth approximately _____.

- A) 900,000, \$20 per share
- B) 1,000,000, \$20 per share.
- C) 900,000, \$22.22 per share.
- D) 1,000,000, \$18 per share.

Answer: <https://biology-forums.com/index.php?topic=642055>

Question 1544

Investors in common stock increase their wealth when the

- A) the market value of the stock goes up.
- B) when the stock pays a dividend.
- C) when the stock pays interest on the original investment.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=640488>

Question 1545

The true owners of the corporation are the

- A) holders of debt issues of the firm.
- B) preferred stockholders.
- C) board of directors of the firm.
- D) common stockholders.

Answer: <https://biology-forums.com/index.php?topic=640379>

Question 1546

Assume that your firm must pay \$4,000 to a Swiss firm. In Swiss francs, the Swiss firm will receive

- A) 391 Swiss francs.
- B) 49,300 Swiss francs.

C) 4,903 Swiss francs.

D) 3,909 Swiss francs.

Answer: <https://biology-forums.com/index.php?topic=642618>

Question 1547

Workers' compensation insurance protects employees income in case they are laid off or fired.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642880>

Question 1548

Which of the following factors tends to reduce or eliminate the use of float?

A) lenient credit policies.

B) large cash balances.

C) electronic funds transfers.

D) high interest rates.

Answer: <https://biology-forums.com/index.php?topic=642534>

Question 1549

When using an EPS-EBIT chart to evaluate a pure debt financing and pure equity financing plan, the debt financing plan line will have

A) a steeper slope than the equity financing plan line.

B) a slower rate of change as EBIT increases.

C) a downward slope.

D) the same slope as the equity plan, but a higher intercept.

Answer: <https://biology-forums.com/index.php?topic=641911>

Question 1550

The first step involved in predicting financing needs is

A) projecting the firm's sales revenues and expenses over the planning period.

B) estimating the levels of investment in current and fixed assets that are necessary to support the projected sales.

C) determining the firm's financing needs throughout the planning period.

D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=642177>

Question 1551

Payback for Project Y is

A) two years.

B) one year.

C) three years.

D) four years.

Answer: <https://biology-forums.com/index.php?topic=641395>

Question 1552

Alva Thomas has decided to place \$10,000 in an account payable to his alma matter when he dies. If the account grows at an annual rate of 6% compounded monthly and he lives for another 10 years, the university will receive

A) $10,000(1 + .06)^{10}$

B) $10,000(1 + .005)^{120}$

C) $10,000(1 + .06)^{120}$

D) $10,000/(1 + .005)^{120}$

Answer: <https://biology-forums.com/index.php?topic=640748>

Question 1553

Forward contracts benefit only the customer due to a reduction in uncertainty.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642700>

Question 1554

Smith Corporation has current assets of \$11,400, inventories of \$4,000, and a current ratio of 2.6. What is Smith's quick or acid test ratio?

A) 1.69

B) 0.54

- C) 0.74
- D) 1.35

Answer: <https://biology-forums.com/index.php?topic=640623>

Question 1555

RAH Inc. is not publicly traded, but the P/E ratios of its 4 closest competitors are 15, 15.3, 15.7, and 16.5. RAH's current earnings per share are \$1.50. They are expected to grow at 6% for the next few years. What is a reasonable price for a share of RAH stock?

Answer: <https://biology-forums.com/index.php?topic=641292>

Question 1556

Marshall Manufacturing has a bond outstanding that was issued 20 years ago at a coupon rate of 9%. The \$1,000 par value bond pays interest semiannually and was originally issued with a term of 30 years. If today's interest rate is 14%, what is the value of the bond today?

- A) \$654.98
- B) \$735.15
- C) \$814.42
- D) \$941.87

Answer: <https://biology-forums.com/index.php?topic=641145>

Question 1557

Financial structure includes long-term and short-term sources of funds.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641843>

Question 1558

Which of the following financial ratios is the best measure of the operating effectiveness of a firm's management?

- A) Current ratio
- B) Gross profit margin
- C) Quick ratio
- D) Return on investment

Answer: <https://biology-forums.com/index.php?topic=640618>

Question 1559

You are saving money to buy a house. You will need \$7,473.50 to make the down payment. If you can deposit \$500 per month in a savings account which pays 1% per month, how long will it take you to save the \$7,473.50?

Answer: <https://biology-forums.com/index.php?topic=640883>

Question 1560

What is the annual percentage cost of the loan, to the nearest .01%?

- A) 5.00%
- B) 4.50%
- C) 5.56%
- D) 2.5%

Answer: <https://biology-forums.com/index.php?topic=642474>

Question 1561

Using a firm's overall cost of capital to evaluate individual projects creates an incentive for managers to avoid high risk projects with potentially high returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641805>

Question 1562

PVE, Inc. has \$15 million of debt outstanding with a coupon rate of 9%. Currently, the yield to maturity on these bonds is 7%. If the firm's tax rate is 35%, what is the after-tax cost of debt to PVE?

- A) 10.76%
- B) 5.85%
- C) 4.55%
- D) 5.4%

Answer: <https://biology-forums.com/index.php?topic=641713>

Question 1563

As a general rule, the optimal capital structure

- A) maximizes expected EPS and also maximizes the price per share of common stock.
- B) minimizes the interest rate on debt and also maximizes the expected EPS.
- C) minimizes the required rate on equity and also maximizes the stock price.
- D) maximizes the price per share of common stock and also minimizes the weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=641915>

Question 1564

Tversky and Co. have devised a new psychological test for investors' risk tolerance. They expect to sell 10,000 tests in the first year at \$150 each. Cash costs associated with producing, administering and scoring the test are \$50 per unit. In the second year, volume is expected to be the same, but both the price and the costs will increase 2.5%. Forecast gross profit in the second year.

Answer: <https://biology-forums.com/index.php?topic=641552>

Question 1565

Economists at PHE Llc estimate a 20% probability of a recession next year, a 50% probability of an average economy, and a 30% probability of a rapid expansion. If there is a recession, the NPV of project O will be \$20 million; if the economy is average, it will be \$45 million and in case of a rapid expansion, it will be \$75 million. What is the expected NPV of the project?

- A) \$57.5 million
- B) \$49 million
- C) \$46.67 million
- D) \$45 million

Answer: <https://biology-forums.com/index.php?topic=641594>

Question 1566

What is the expected NPV of the project if the option to abandon is not considered?

- A) (\$4,545)
- B) \$31,694
- C) \$37,267
- D) \$63,388

Answer: <https://biology-forums.com/index.php?topic=641669>

Question 1567

The required rate of return represents the cost of capital for a project.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641370>

Question 1568

Queen Co.'s balance in accounts receivable is \$240,000. Annual credit sales are \$2,880,000. Queen's average collection period is

- A) 12 days.
- B) 30.4 days.
- C) 2.5 days.
- D) There is not enough information.

Answer: <https://biology-forums.com/index.php?topic=642387>

Question 1569

Owners must register and pay yearly fees to their State of residence when establishing a sole proprietorship.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640400>

Question 1570

The initiation of a major advertising campaign would be an example of an event that would affect past trends in sales when projecting statements.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642214>

Question 1571

Discuss the risk/return tradeoff and how it relates to finance.

Answer: <https://biology-forums.com/index.php?topic=640455>

Question 1572

Draper Company's common stock paid a dividend last year of \$3.70. You believe that the long-term growth in the dividends of the firm will be 8% per year. If your required return for Draper is 14%, how much are you willing to pay for the stock?

Answer: <https://biology-forums.com/index.php?topic=641273>

Question 1573

Frost Corporation's recent earnings per share were \$12.90. Their dividend payout ratio is 20%. Earnings are expected to grow at an average of 6% per year and the company's policy is to maintain the same payout ratio. If investors are requiring a 12% rate of return on this stock, what will they be willing to pay for one share?

- A) \$21.50
- B) \$22.75
- C) \$43.00
- D) \$45.58

Answer: <https://biology-forums.com/index.php?topic=641238>

Question 1574

For a line of snowblowers sold by Arctic Equipment, fixed costs, including depreciation of \$1,000,000, total \$2,400,000. The snowblowers sell for \$800 each. Variable costs of a snowblower are \$500. Compute

- a. accounting break-even.
- b. cash break-even

Answer: <https://biology-forums.com/index.php?topic=641658>

Question 1575

Which of the following provisions is unique to preferred stockholders and usually NOT available to common stockholders?

- A) Cumulative dividends feature
- B) Voting rights
- C) Fixed dividend
- D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=641302>

Question 1576

Consolidated Industries has total interest charges of \$20,000 per year. Sales of \$2 million generated an operating income of \$220,000 and an after-tax profit of 6% of sales. The firm has a marginal tax rate of 39%. What is the firm's times-interest-earned ratio?

- A) 10
- B) 11
- C) 12
- D) 13

Answer: <https://biology-forums.com/index.php?topic=640680>

Question 1577

Which of the following best describes the goal of the firm?

- A) The maximization of the total market value of the firm's common stock
- B) Profit maximization
- C) Risk minimization
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640408>

Question 1578

Which of the following describes the effect of a stock dividend?

- A) A stock dividend immediately increases the market price of a share of stock.
- B) A stock dividend immediately decreases the paid-in capital account.
- C) A stock dividend immediately increases the number of shares outstanding.
- D) A stock dividend indicates that the company must be short on cash.

Answer: <https://biology-forums.com/index.php?topic=641946>

Question 1579

A corporation is owned by

- A) shareholders and partners.

- B) the shareholders who hold the company's stock.
- C) the Board of Directors
- D) its Chief Executive Officer.

Answer: <https://biology-forums.com/index.php?topic=640391>

Question 1580

Investments in emerging markets have higher volatility than do U.S. Stocks.
True / False?

Answer: <https://biology-forums.com/index.php?topic=640958>

Question 1581

Actual 2014 figures and forecasted 2015 figures are shown below for HEMOPath Labs

Actual 2014 Forecast 2015

Sales \$6,000,000 \$6,480,000

Total Variable Costs 3,600,000 3,888,000

Total Fixed Costs 2,000,000 2,000,000

NOI ? ?

DOL

Compute HEMOPath's degree of operating leverage (DOL) in 2014.

Answer: <https://biology-forums.com/index.php?topic=641659>

Question 1582

If you hold a portfolio made up of the following stocks:

Investment Value Beta

Stock A \$2,000 1.5

Stock B \$5,000 1.2

Stock C \$3,000 .8

What is the beta of the portfolio?

A) 1.17

B) 1.14

C) 1.32

D) Can't be determined from information given

Answer: <https://biology-forums.com/index.php?topic=641036>

Question 1583

An options contract gives its owner the right to buy or sell a fixed number of shares at a specified price over a limited time period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643019>

Question 1584

Which of the following is a good reason for a company to have higher than average debt ratios?

A) The company's cash flows are difficult to predict.

B) The company generates little taxable income.

C) Customer support is an important aspect of the company's business.

D) The company faces high marginal tax rates.

Answer: <https://biology-forums.com/index.php?topic=641899>

Question 1585

Goodwin Enterprises had a gross profit of \$2,500,000 for the year. Operating expenses and interest expense incurred in that same year were \$595,000 and \$362,000, respectively. Goodwin had 200,000 shares of common stock and 180,000 shares of preferred stock outstanding. Management declared a \$2.50 dividend per share on the common and a \$1.50 dividend per share on the preferred. Securities purchased at a cost of \$37,500 in a previous year were resold at a price of \$50,500. Compute the taxable income and the resulting tax liability for Goodwin Enterprises for the year.

Use the following tax rates:

Income Tax rate

\$0-\$50,000 15%

\$50,001-\$75,000 25%

\$75,001-\$100,000 34%

\$100,001-\$335,000 39%

over \$335,001 34%

Answer: <https://biology-forums.com/index.php?topic=640559>

Question 1586

Typical preferred stock is valued as a perpetual annuity.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641321>

Question 1587

Assume that Gatsby Enterprises has sales of \$83 million and fixed assets of \$22.4 million in 2013. The corporation utilizes the percent-of-sales method of financial forecasting. If Gatsby is expected to generate sales of \$94 million in 2014, what will the firm's investment in fixed assets be? The minimum fixed asset expansion costs \$4,000,000.

- A) \$19.8 million
- B) \$26.4 million
- C) \$16.2 million
- D) \$25.4 million

Answer: <https://biology-forums.com/index.php?topic=642188>

Question 1588

What is the present value of an investment that pays \$400 at the end of three years and \$700 at the end of 10 years if the discount rate is 5%?

- A) \$1,100.00
- B) \$675.30
- C) \$775.40
- D) \$424.60

Answer: <https://biology-forums.com/index.php?topic=640791>

Question 1589

Which of the following is most likely to be a temporary source of financing?

- A) Commercial paper
- B) Preferred stock
- C) Long-term debt
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=642317>

Question 1590

If you put \$510 in a savings account at the beginning of each year for 30 years, how much money will be in the account at the end of the 30th year? Assume that the account earns 5%, and round to the nearest \$100.

- A) \$33,300
- B) \$32,300
- C) \$33,900
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=640831>

Question 1591

Worcester Corp is considering two mandated projects. They would serve the same purpose and be mutually exclusive. The present value of total costs over a five year period for Project November is \$50,000. The present value of total costs over a 4 year period for project December is \$40,000. The company uses a discount rate of 9%. Which project should it choose and why?

- A) November because the NPV is higher.
- B) November because EAC is higher.
- C) December because it has a shorter life.
- D) December because it has lower EAC.

Answer: <https://biology-forums.com/index.php?topic=641406>

Question 1592

What is the value of \$750 invested at 7.5% compounded quarterly for 4.5 years (round to the nearest \$1)?

- A) \$1,048
- B) \$1,010
- C) \$1,038
- D) \$808

Answer: <https://biology-forums.com/index.php?topic=640746>

Question 1593

Brookline, Inc. just sold an issue of 30-year bonds for \$1,107.20. Investors require a rate of return on these bonds of 7.75%. The bonds pay interest semiannually. What is the coupon rate of the bonds?

- A) 7.750%
- B) 11.072%
- C) 9.375%
- D) 8.675%

Answer: <https://biology-forums.com/index.php?topic=641139>

Question 1594

Most financial assets have correlation coefficients between 0 and 1.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641010>

Question 1595

Marcus Berger invested \$9842.33 in Hawkeye Hats, Inc. four years ago. He sold the stock today for \$11,396.22. What is his geometric average return?

- A) 2.98%
- B) 3.73%
- C) 3.95%
- D) There is insufficient information to derive an answer.

Answer: <https://biology-forums.com/index.php?topic=640964>

Question 1596

The risk of a firm not being able to pay its bills on time is called

- A) illiquidity.
- B) insolvency.
- C) capital inadequacy.
- D) float.

Answer: <https://biology-forums.com/index.php?topic=642285>

Question 1597

Discuss two reasons why preferred stock would be viewed as less risky than common stock to investors.

Answer: <https://biology-forums.com/index.php?topic=641325>

Question 1598

A firm's average collection period has decreased significantly from the previous year. Which of the following could possibly explain the results?

- A) Customers are paying off their accounts quicker.
- B) Customers are taking longer to pay for purchases.
- C) The firm has a stricter collection policy.
- D) Both A and C.

Answer: <https://biology-forums.com/index.php?topic=640615>

Question 1599

Swenson Oil & Gas allows its customers to prepurchase heating oil in June for the coming winter. Swenson's customers who take advantage of the offer

- A) are speculating that fuel prices will be higher in the future.
- B) have purchased a form of call option for heating fuel.
- C) are entering into a futures contract to offset the risk of higher fuel prices during the winter.
- D) are purchasing a form of insurance against fuel shortages.

Answer: <https://biology-forums.com/index.php?topic=642902>

Question 1600

Michael Lynch invested \$10,000 in the Rearguard Fund four years ago. All earnings were reinvested in the fund. If his compound annual rate of return was 7%, what is his investment worth today (round to the nearest dollar)?

- A) \$13,108
- B) \$10,700
- C) \$12,800

D) \$763

Answer: <https://biology-forums.com/index.php?topic=640965>

Question 1601

In 2013, Sunny Electronics expects to sell 100,000 3-D television sets for an average price of \$1,000. Expected production costs are \$600 per unit. In 2014, volume is expected to increase by 10%, Inflation will increase the cost per unit by 3%, but to attract more buyers, Sunny will reduce the price to \$950. In nominal dollars, expected gross profit for 2014 is

- A) \$45.32 million.
- B) \$40 million.
- C) \$38 million.
- D) \$36.52 million.

Answer: <https://biology-forums.com/index.php?topic=641544>

Question 1602

A bond with a Moody's rating of Aaa and an S&P rating of AAA will have a higher required return than a bond with a Moody's rating of Aa1 and an S&P rating of AA+.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641753>

Question 1603

A futures contract provides the holder with the option to buy or sell a stated contract involving a commodity or financial claim at a specified price over a stated time period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643005>

Question 1604

Some risks cannot be transferred to other parties.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642844>

Question 1605

The cost of debt used in the international investment decision is the lesser of the parent's or the subsidiary's cost of debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642806>

Question 1606

Which of the basic financial statements is best used to answer the question, "How profitable is the business?"

- A) Balance sheet
- B) Statement of shareholder's equity
- C) Income statement
- D) Accounts receivable aging schedule

Answer: <https://biology-forums.com/index.php?topic=640507>

Question 1607

Dudster company's DOL is 2. If sales increase by 10%, NOI will increase by 5%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641652>

Question 1608

Common stock dividends tend to be more stable than

- A) cash flow.
- B) earnings.
- C) preferred stock dividends .
- D) bond interest

Answer: <https://biology-forums.com/index.php?topic=642121>

Question 1609

The risk-return relationship for each financial asset is shown on

- A) the capital market line.

- B) the New York Stock Exchange market line.
- C) the security market line.
- D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=641067>

Question 1610

Baker & Co. has applied for a loan from the Trust Us Bank in order to invest in several potential opportunities. In order to evaluate the firm as a potential debtor, the bank would like to compare Baker & Co. to the industry. The following are the financial statements given to Trust Us Bank:

Balance Sheet 12/31/15 12/31/16

Cash \$305 270

Accounts receivable 275 290

Inventory 600 580

Current assets 1,180 1,140

Plant and equipment 1,700 1,940

Less: acc depr (500) (600)

Net plant and equipment 1,200 1,340

Total assets \$2,380 \$2,480

Liabilities and Owners' Equity

Accounts payable \$150 \$200

Notes payable 125 0

Current liabilities 275 200

Bonds 500 500

Owners' equity

Common stock 165 305

Paid-in-capital 775 775

Retained earnings 665 700

Total owners' equity 1,605 1,780

Total liabilities and owners' equity \$2,380 \$2,480

Income Statement

Sales (100% credit) \$1,100 \$1,330

Cost of goods sold 600 760

Gross profit 500 570

Operating expenses 20 30

Depreciation 160 200

Net operating income 320 340

Interest expense 64 57

Net income before taxes 256 283

Taxes 87 96

Net income \$169 \$187

Compute the following ratios:

2015 2016 Industry Norms

Current ratio 5.0

Acid test ratio 3.0

Inventory turnover 2.2

Average collection period 90 days

Debt ratio .33

Times interest earned 7.0

Total asset turnover .75

Fixed asset turnover 1.0

Operating profit margin 20%

Net profit margin 12%

Return on total assets 9.00%

Return on equity 10.43%

Answer: <https://biology-forums.com/index.php?topic=640700>

Question 1611

What is the present value of an annuity of \$27 received at the beginning of each year for the next six years? The first payment will be received today, and the discount rate is 10% (round to nearest \$10).

- A) \$120
- B) \$130
- C) \$100
- D) \$110

Answer: <https://biology-forums.com/index.php?topic=640821>

Question 1612

The relevant depreciation expense for a replacement investment is the difference between depreciation on the new asset(s) and the old asset(s). True / False?

Answer: <https://biology-forums.com/index.php?topic=641559>

Question 1613

Consider an investment that has cash flows of \$500 the first year and \$400 for the next four years. If your opportunity cost is 10%, you should be willing to pay \$1,607.22 for this investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640921>

Question 1614

The preparation of pro forma financial statements accomplishes which of the following objectives?

- A) It allows management to pinpoint a firm's optimal stock price.
- B) It is essential if the firm is to accurately estimate its weighted average cost of capital.
- C) It assists management in making decisions with respect to raising the capital that is needed for growth.
- D) It pinpoints periods when the firm will have short-term cash surpluses.

Answer: <https://biology-forums.com/index.php?topic=642182>

Question 1615

What is the value of a bond that matures in three years, has an annual coupon payment of \$110, and a par value of \$1,000? Assume a required rate of return of 11%, and round your answer to the nearest \$10.

- A) \$970
- B) \$1,330
- C) \$330
- D) \$1,000

Answer: <https://biology-forums.com/index.php?topic=641133>

Question 1616

There is no legal distinction made between the assets of the business and the personal assets of the owners in the limited partnership.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640396>

Question 1617

What is the expected NPV of the project if the option to abandon is considered?

- A) (\$4,545)
- B) \$31,694
- C) \$37,267
- D) \$63,388

Answer: <https://biology-forums.com/index.php?topic=641670>

Question 1618

DIY Building Supplies has the following record of paying dividends

2013 \$1.10
2014 \$1.15
2015 \$1.21
2016 \$1.25
2017 \$1.28

What are the arithmetic and geometric average growth rates of DIY's dividend payments?

- A) 4.09%, 8.35%
- B) 3.09%, 3.08%
- C) 3.87%, 3.86%
- D) 4.55%, 4.49%

Answer: <https://biology-forums.com/index.php?topic=641738>

Question 1619

CEOs naming friends to the board of directors and paying them more than the norm is an example of the

- A) agency problem.
- B) preemptive right.
- C) majority voting feature.
- D) proxy fights.

Answer: <https://biology-forums.com/index.php?topic=641235>

Question 1620

Relevant incremental cash flows include

- A) sales captured from the firm's competitors.
- B) retained sales that would have been lost to new competing products.
- C) incremental sales brought to the firm as a whole.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641448>

Question 1621

Which of the following statements is true?

- A) Preferred stockholders are entitled to dividends before common stockholders can receive dividends.
- B) Preferred stock, like common stock, usually has no maturity; i.e., the corporation does not pay back the investment.
- C) The market value of preferred stock, like bonds, will usually fluctuate in value primarily as the result of market rates of interest.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=641296>

Question 1622

You paid \$865.50 for a corporate bond that has a 6.75% coupon rate. What is the bond's current yield?

- A) 8.375%
- B) 7.800%
- C) 15.001%
- D) 6.667%

Answer: <https://biology-forums.com/index.php?topic=641147>

Question 1623

You have borrowed \$70,000 to buy a speed boat. You plan to make monthly payments over a 15-year period. The bank has offered you a 9% interest rate, compounded monthly. Create an amortization schedule for the first two months of the loan.

Answer: <https://biology-forums.com/index.php?topic=640885>

Question 1624

Fitchminster Armored Car can purchase a new vehicle for \$200,000 that will provide annual net cash flow over the next five years of \$40,000, \$45,000, \$50,000, \$55,000, \$60,000. The salvage value of the vehicle will be \$25,000. Assume that the vehicle is sold at the end of year 5. Calculate the NPV of the ambulance if the required rate of return is 9%. (Round your answer to the nearest \$1.)

- A) \$7,390
- B) \$6,048
- C) \$6,780
- D) \$19,483

Answer: <https://biology-forums.com/index.php?topic=641347>

Question 1625

Your parents are planning to retire in Phoenix, AZ in 20 years. Currently, the typical house that pleases your parents costs \$200,000, but they expect inflation to increase the price of the house at a rate of 4% over the next 20 years. In order to buy a house upon retirement, what must they save each year in equal annual end-of-year deposits if they can earn 10% annually?

- A) \$21,910.00
- B) \$7,650.94
- C) \$10,000.00
- D) \$14,715.52

Answer: <https://biology-forums.com/index.php?topic=640916>

Question 1626

Which of the following would result in a negative cash conversion cycle?

- A) A negative cash conversion cycle is not possible.
- B) Average collection period 7 days, inventory conversion period 30 days, payables deferral period 30 days.
- C) Average collection period 60 days, inventory conversion period 30 days, payables deferral period 7 days.

D) Average collection period 7 days, inventory conversion period 30 days, payables deferral period 60 days.

Answer: <https://biology-forums.com/index.php?topic=642398>

Question 1627

If a company's average collection period is higher than the industry average, then the company might be:

- A) enforcing credit conditions upon its customers which are too stringent.
- B) allowing its customers too much time to pay their bills.
- C) too tough in collecting its accounts.
- D) too liquid.

Answer: <https://biology-forums.com/index.php?topic=640621>

Question 1628

Which of the following forms of business organization is the dominant economic force in the United States?

- A) The sole proprietorship
- B) The general partnership
- C) The limited partnership
- D) The joint venture
- E) The corporation

Answer: <https://biology-forums.com/index.php?topic=640389>

Question 1629

The price of a Swiss franc in British pounds is

- A) 1.4842 British pounds to the Swiss franc.
- B) 1.4173 British pounds to the Swiss franc.
- C) .7056 British pounds to the Swiss franc.
- D) .6738 British pounds to the Swiss franc

Answer: <https://biology-forums.com/index.php?topic=642622>

Question 1630

The 2010 law which prevents banks that take deposits from engaging in proprietary trading is known as

- A) Sarbanes-Oxley.
- B) The Dodd-Frank (Wall Street Reform and Consumer Protection) Act.
- C) The Glass-Steagall Act.
- D) The Gramm-Leach-Bliley Act.

Answer: <https://biology-forums.com/index.php?topic=640489>

Question 1631

It is not possible to have a negative cash conversion cycle.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642407>

Question 1632

A decrease in the _____ will cause an increase in common stock value.

- A) growth rate
- B) required rate of return
- C) last paid dividend
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=641242>

Question 1633

You are on your way to a beautiful Mexican resort. The current exchange rate is 21 pesos to the dollar. When you arrive, you convert \$1,000 for how many pesos?

- A) 21,000 pesos
- B) 2,100 pesos
- C) 476 pesos
- D) 4,760 pesos

Answer: <https://biology-forums.com/index.php?topic=642608>

Question 1634

The expected after-tax cash flow from an investment property that you are considering is

Year 1 \$25,000

Year 2 \$27,500

Year 3 \$30,250

At the end of year 3 you expect to sell the property for \$400,000. If the appropriate discount rate is 12%, what is the most you should pay for this property?

Answer: <https://biology-forums.com/index.php?topic=640931>

Question 1635

Capital budgeting analyses typically assume a constant cost of capital, even though the analysts know it will change. One reason for this practice is that

- A) the changes are too small to affect the decision.
- B) a constant cost of capital is the most conservative assumption.
- C) the changes are unpredictable.
- D) NPV calculations do not allow more than one discount rate.

Answer: <https://biology-forums.com/index.php?topic=641774>

Question 1636

Flotation costs are higher for debt than for equity because debt creates more risk to the issuer.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641821>

Question 1637

Electronic funds transfer (EFT) could eventually eliminate the use of most checks and minimize float.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642553>

Question 1638

The most expensive source of capital is usually

- A) preferred stock.
- B) new common stock.
- C) debt.
- D) retained earnings.

Answer: <https://biology-forums.com/index.php?topic=641718>

Question 1639

Real options are derivative securities that derive their value from the value of the underlying projects.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641679>

Question 1640

Two projects are under consideration by the same company at the same time. Project Alpha has a NPV of \$20 million and an estimated useful life of 10 years. Project Beta has a NPV of \$12 million and also an estimated useful life of 10 years. What should the company's decision be?

- a) if the projects involve unrelated expansion decisions or
- b) if the projects are mutually exclusive because they would have to occupy the same space?

Answer: <https://biology-forums.com/index.php?topic=641375>

Question 1641

The P/E ratio is calculated by dividing

- A) the current stock price by stockholders' equity.
- B) total assets by net income.
- C) the current stock price by earnings per share.
- D) the current stock price by operating cash flow per share.

Answer: <https://biology-forums.com/index.php?topic=641279>

Question 1642

Pederson Home Heating Inc. anticipates that cash flows from home heating fuel sales next year will be \$800,000 if the winter is mild, \$1,000,000 if winter is average, and \$1,500,000 if winter is exceptionally cold. The probability of an average winter is 60%, while the probability of either a mild or an exceptionally cold winter is 20%. What is Pederson's expected cash flow from fuel sales next winter?

- A) \$1,060,000
- B) \$1,100,000
- C) \$1,000,000
- D) \$1,150,000

Answer: <https://biology-forums.com/index.php?topic=641595>

Question 1643

Purchases of plant and equipment can be determined from the

- A) current cash budget.
- B) previous period's balance sheet.
- C) pro forma income statement.
- D) use of ratio analysis.

Answer: <https://biology-forums.com/index.php?topic=642239>

Question 1644

What is the arithmetic average return of Roddy Richard's investment?

- A) 2.42%
- B) 3.96%
- C) 5.18%
- D) 15.1%

Answer: <https://biology-forums.com/index.php?topic=640966>

Question 1645

Which of the following is a significant disadvantage of a general partnership?

- A) The cost of forming it is high.
- B) Each partner is fully responsible for the liabilities incurred by the partnership.
- C) There is a risk associated with the industry in which it operates.
- D) Forming the business is very complex.

Answer: <https://biology-forums.com/index.php?topic=640388>

Question 1646

Ratios that examine profit relative to investment are useful in evaluating the overall effectiveness of the firm's management.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640687>

Question 1647

Timelines used to visualize cash flows normally represent present values on the left and future values on the right.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640732>

Question 1648

Project Black Swan requires an initial investment of \$115,000. It has positive cash flows of \$140,000 for each of the next two years. Because of major demolition and environmental clean-up costs, cash flow for the third and final year of the project is \$(170,000).

- A) All possible IRR's for this project are negative.
- B) It is not possible to compute an IRR for this project.
- C) The project is unacceptable at any required rate of return.
- D) This project might have more than one IRR.

Answer: <https://biology-forums.com/index.php?topic=641385>

Question 1649

The total interest obligation will be

- A) \$105,000 under alternative I and \$9,000 under alternative II.
- B) \$9,000 under alternative I and \$105,000 under alternative II.
- C) zero under alternative I and \$96,000 under alternative II.
- D) \$105,000 under both alternative I and alternative II.

Answer: <https://biology-forums.com/index.php?topic=641918>

Question 1650

Most of the variables used in forecasting cash flows are known with certainty.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641577>

Question 1651

Ordinary annuities assume that cash flows occur

- A) at the beginning of a period.
- B) at the end of a period.
- C) annually
- D) Both B and C

Answer: <https://biology-forums.com/index.php?topic=640816>

Question 1652

On average, when the overall market changes by 10%, the stock of Veracity Communications changes 12%. Veracity's beta is

- A) 1.2.
- B) 8.33%.
- C) 12%.
- D) Insufficient information is provided

Answer: <https://biology-forums.com/index.php?topic=641032>

Question 1653

By using common size income statements, firms can determine how various expenses as a percentage of total sales changed from period to period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640600>

Question 1654

Assume that $N(d1) = .63105$ and $N(d2) = .50735$. Compute the value of the call option using the Black-Scholes option pricing model.

- A) \$23.99
- B) \$7.56
- C) \$7.20
- D) \$2.00

Answer: <https://biology-forums.com/index.php?topic=643159>

Question 1655

The highest marginal corporate tax rate is 35%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640556>

Question 1656

Which of the following is the best indicator of management's effectiveness at managing the firm's balance sheet?

- A) Debt ratio
- B) Total asset turnover
- C) Times-interest-earned
- D) Operating profit margin

Answer: <https://biology-forums.com/index.php?topic=640641>

Question 1657

The present value of a perpetuity decreases when the _____ decreases.

- A) number of investment periods
- B) annual discount rate
- C) perpetuity payment
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=640891>

Question 1658

The balance sheet for Peterson Manufacturing Company is presented below.

Peterson Mfg. Co.

Balance Sheet

December 31, 1995

Cash \$32,000 Current liabilities \$72,000

Accounts receivable 40,000 Long-term liabilities 48,000
Inventories 48,000 Common equity 120,000
Total current assets \$120,000
Net fixed assets 120,000
Total \$240,000 Total \$240,000

During 2009, the firm earned \$28,000 after taxes based on net sales of \$480,000.

- Calculate Peterson's current ratio and net working capital.
- Assume that Peterson's uses \$20,000 of its cash to reduce current liabilities. Recompute the current ratio and net working capital.
- What effect, if any, does the change proposed in question b have on Peterson's liquidity.

Answer: <https://biology-forums.com/index.php?topic=642308>

Question 1659

Spot exchange markets have the potential for arbitrage opportunities for a long period of time.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642690>

Question 1660

The end result of a simulation analysis is

- a probability distribution of project cash flows.
- a clear decision on whether or not a project should be accepted.
- a probability distribution of possible NPV's.
- a list of value drivers and their probabilities.

Answer: <https://biology-forums.com/index.php?topic=641611>

Question 1661

In measuring value, the focus should be on

- cash flow.
- accounting profits.
- time value of money.
- earnings per share.

Answer: <https://biology-forums.com/index.php?topic=640443>

Question 1662

The focus of DuPont Analysis is to provide management information as to how the firm is using its resources to maximize returns on owners' investments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640685>

Question 1663

The after-tax cost of capital is computed by multiplying the before-tax cost of capital by 1 minus the tax rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641700>

Question 1664

Miniature Molding is planning to introduce a valve for use in medical implants. Variable costs per unit are \$250. The maximum price MM could charge is \$325. Fixed costs associated with this product are \$20,000,000. The worst case forecast calls for sales of 240,000 valves, the best case for 290,400. Will MM reach accounting break-even in the worst case scenario?

- Sales will fall short of break even by \$8,666,667.
- The product will exactly break even.
- Sales will fall short of break even by \$5,000,025.
- Sales will exceed break even \$58,000,000.

Answer: <https://biology-forums.com/index.php?topic=641639>

Question 1665

Riskier investments have traditionally had lower returns than less risky investments have had.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640956>

Question 1666

Briefly describe at least three useful tools for maintaining control over accounts receivable.

Answer: <https://biology-forums.com/index.php?topic=642565>

Question 1667

Corporate income statements are usually compiled on an accrual, rather than cash, basis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640545>

Question 1668

Under what conditions would the Modigliani and Miller dividend indifference theorem be literally true.

Answer: <https://biology-forums.com/index.php?topic=642111>

Question 1669

The higher the standard deviation, the less risk the investment has.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640947>

Question 1670

Which of the following formulas represents the future value of \$500 invested at 8% compounded quarterly for five years?

A) $500(1 + .08)^5$

B) $500(1 + .08)^{20}$

C) $500(1 + .02)^5$

D) $500(1 + .02)^{20}$

Answer: <https://biology-forums.com/index.php?topic=640745>

Question 1671

The cash budget can be used to provide an estimate of the firm's future financing needs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642269>

Question 1672

European and American are different types of stock options and have nothing to do with where the options are bought and sold.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643007>

Question 1673

A(n) _____ is a financial instrument that can be used to hedge the effect of both favorable and unfavorable price movements.

A) convertible securities

B) call option

C) put option

D) futures contracts

Answer: <https://biology-forums.com/index.php?topic=642993>

Question 1674

Firms can use stock repurchases as a dividend substitute.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641995>

Question 1675

Garvin, Inc.'s bonds have a par value of \$1,000. The bonds pay semiannual interest of \$40 and mature in five years.

a. How much would you pay for Garvin bonds if your required rate of return is 10%?

b. How much would you pay if your required rate of return is 8%?

Answer: <https://biology-forums.com/index.php?topic=641174>

Question 1676

Paper Clip Office Supply had \$24,000,000 in sales last year. Its total asset turnover was 3.0. Interest expense was \$100,000 (5% on its \$2,000,000 of debt). The company is financed entirely with debt and common equity. What is Paper Clip's debt ratio?

A) 20%

- B) 30%
- C) 25%
- D) 60%
- E) 16%

Answer: <https://biology-forums.com/index.php?topic=640682>

Question 1677

Regal Enterprises is considering the purchase of a new embroidering machine. It is expected to generate additional sales of \$400,000 per year. The machine will cost \$295,000, plus \$3,000 to install it. The embroiderer will save \$12,000 in labor expense each year. Regal is in the 34% income tax bracket. The machine will be depreciated on a straight-line basis over five years (it has no salvage value). The embroiderer will require annual operating expenses of \$136,000. What is the annual operating cash flow that the machine will generate?

- A) \$316,954
- B) \$124,000
- C) \$202,424
- D) \$165,816

Answer: <https://biology-forums.com/index.php?topic=641507>

Question 1678

Swenson Oil & Gas allows its customers to prepurchase heating oil in June for the coming winter. Customers who took advantage of the offer prepurchased 400,000 gallons of oil at \$3.50 per gallon. Swenson hedged its position by contracting to purchase 400,000 gallons of oil for November delivery at a price of \$3.00 per gallon. If the November spot price is \$3.25 per gallon, the payoff to Swenson is

- A) \$100,000.
- B) (\$100,000).
- C) \$200,000.
- D) \$0.00.

Answer: <https://biology-forums.com/index.php?topic=642906>

Question 1679

Assume that the current price of DEY stock is \$25, that a 1 year call option on the stock has a strike or exercise price of \$27.50, the risk free rate is 4%, and that you have calculated $N(d_1)$ as .5476 and $N(d_2)$ as .4432. Use the Black-Scholes model to calculate the price of the option.

- A) \$1.74
- B) \$4.20
- C) 1.98
- D) \$2.50

Answer: <https://biology-forums.com/index.php?topic=643153>

Question 1680

You purchased the stock of Sargent Motors at a price of \$75.75 one year ago today. If you sell the stock today for \$89.00, what is your rate of return?

- A) 35.00%
- B) 12.50%
- C) 17.50%
- D) 25.00%

Answer: <https://biology-forums.com/index.php?topic=640933>

Question 1681

All of the following affect the value of a bond EXCEPT

- A) investors' required rate of return.
- B) the recorded value of the firm's assets.
- C) the coupon rate of interest.
- D) the maturity date of the bond.

Answer: <https://biology-forums.com/index.php?topic=641121>

Question 1682

The number of pounds you can purchase per U.S. dollar is

- A) 1.4504
- B) 6.895
- C) 0.6895
- D) 14..51

Answer: <https://biology-forums.com/index.php?topic=642614>

Question 1683

The December 31, 1995 balance sheet for Spitco, Inc. is presented below.

Spitco, Inc.

Balance Sheet

December 31, 2010

Current assets \$40,000

Net fixed assets 20,000

Total \$60,000

Accounts payable 11,000

Notes payable 12,000

Total \$23,000

Long-term debt (10%) 12,000

Common equity 25,000

Total \$60,000

- Calculate Spitco's current ratio, and net working capital.
- Spitco feels that its current ratio is too far below the industry average of 2.40. To improve their liquidity, the treasurer of Spitco has devised a plan to issue \$12,000 in long-term debt at 12% and pay off its notes payable. The funds would be invested in marketable securities at 7% interest when not needed to finance the firm's seasonal asset needs. The notes payable would remain outstanding through the year. Assume this plan had been implemented for 2010. Calculate what the firm's current ratio, and net working capital would have been.
- Did Spitco improve their liquidity? What do you think happened to Spitco's return on investment?

Answer: <https://biology-forums.com/index.php?topic=642309>

Question 1684

How much money must you pay into an account at the beginning of each of 11 years in order to have \$5,000 at the end of the 11th year? Assume that the account pays 8% per year, and round to the nearest \$1.

- \$700
- \$257
- \$300
- \$278

Answer: <https://biology-forums.com/index.php?topic=640837>

Question 1685

Your company has received a \$50,000 loan from an industrial finance company. The annual payments are \$6,202.70. If the company is paying 9% interest per year, how many loan payments must the company make?

- 15
- 13
- 12
- 19

Answer: <https://biology-forums.com/index.php?topic=640815>

Question 1686

You have been asked to analyze a capital investment proposal. The project's cost is \$2,775,000. Cash inflows are projected to be \$925,000 in Year 1; \$1,000,000 in Year 2; \$1,000,000 in Year 3; \$1,000,000 in Year 4; and \$1,225,000 in Year 5. Assume that your firm discounts capital projects at 15.5%. What is the project's NPV?

- \$101,247
- \$285,106
- \$473,904
- \$582,380

Answer: <https://biology-forums.com/index.php?topic=641359>

Question 1687

Pettry, Inc. expects EPS this year to be \$5.25. If EPS grows at an average annual rate of 10%, and if Pettry pays 60% of its earnings as dividends, what will the expected dividend per share be in 10 years?

Answer: <https://biology-forums.com/index.php?topic=642116>

Question 1688

Nouvel An S.A. is considering a project that requires an initial investment of \$51,000. It is expected to produce annual cash flows of \$35,000, \$25,000 and \$15,000. What is the discounted payback period for this project if the discount rate is 12%?

- approximately 1 year.

- B) approximately 1.6 years.
- C) approximately 2 years.
- D) The project will never reach discounted payback.

Answer: <https://biology-forums.com/index.php?topic=641404>

Question 1689

Which of the following is included in the denominator of the times-interest-earned ratio?

- A) Lease payments
- B) Principal payments
- C) Interest expense
- D) Gross profit

Answer: <https://biology-forums.com/index.php?topic=640619>

Question 1690

Why are market values preferred to book (balance sheet) values when computing a firm's weighted average cost of capital?

Answer: <https://biology-forums.com/index.php?topic=641712>

Question 1691

The inclusion of bankruptcy costs and taxes in firm valuation

- A) causes the cost of capital curve to be umbrella shaped.
- B) is consistent with a saucer-shaped cost of capital curve.
- C) is consistent with a cost of capital curve that slopes downward
- D) causes the cost of capital to rise in a linear fashion as more debt is added to the capital structure.

Answer: <https://biology-forums.com/index.php?topic=641870>

Question 1692

Anderson-EOG Inc. is evaluating the the construction of a gas pipeline to bring natural gas from Western New York state to New York City. The controller argues that every project of the company has to absorb a portion of administrative overhead including corporate headquarters and executive salaries. The Treasurer argues that these costs are irrelevant because they are merely being shifted from part of the company to another. Who is correct?

Answer: <https://biology-forums.com/index.php?topic=641480>

Question 1693

From a financial point of view, a company that decides to develop new product is making

- A) a financing decision.
- B) an investment decision.
- C) a capital structure decision.
- D) a cash flow decision.

Answer: <https://biology-forums.com/index.php?topic=640368>

Question 1694

The EBIT-EPS indifference point

- A) identifies the EBIT level at which the EPS will be the same regardless of the financing plan.
- B) identifies the point at which the analysis can use EBIT and EPS interchangeably.
- C) identifies the level of earnings at which the management is indifferent about the payments of dividends.
- D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=641914>

Question 1695

When the present financial ratios of a firm are compared with similar ratios for another firm in the same industry, it is called trend analysis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640704>

Question 1696

Aspects of demand risk controllable by the firm include

- A) product quality.
- B) interest rates.
- C) entry of external competitors.
- D) status of the regional and national economy.

Answer: <https://biology-forums.com/index.php?topic=642826>

Question 1697

Serious ethical violations by corporations such as Enron led to the passage of

- A) The Dodd-Frank Act.
- B) the Insider Trading Act of 1988.
- C) The Sarbanes-Oxley Act.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=640418>

Question 1698

Jorge has purchased call options on 1000 shares of Goldman-Sachs (GS) stock with a strike price of \$240 per share. The option premium was \$4.00 per share.

- a. Compute Jorge's profit or loss if the market value of GS stock is \$250 at expiration.
- b. Compute Jorge's profit or loss if the market value of GS stock is \$230 at expiration.
- c. Compute Jorge's profit or loss if the market value of GS stock is \$242 at expiration.

Answer: <https://biology-forums.com/index.php?topic=643037>

Question 1699

Assume that the tax rate is 34% and bankruptcy costs are negligible until a firm's debt to equity ratio is greater than one. If Madison Co. increases debt from 10% of its capital structure to 40%, cash flows to investors will

- A) decrease.
- B) remain the same.
- C) increase.
- D) A firm's cash flows are independent of its capital structure.

Answer: <https://biology-forums.com/index.php?topic=641874>

Question 1700

When several sign reversals in the cash flow stream occur, the IRR equation can have more than one positive IRR.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641418>

Question 1701

Cheshire Corporation is now financed 100% with equity. The cost of equity is 15%. Cheshire is considering a proposal to borrow enough money at 7% to buy back half of its common stock. It would then be financed 50% with debt and 50% with equity. Assume that this does not affect the cost of equity. Cheshire's tax rate is 40%. What is Cheshire's cost of capital without and with the stock repurchase?

Answer: <https://biology-forums.com/index.php?topic=641893>

Question 1702

Assume that investors' have a 10% required rate of return on MTA stock. According to the Modigliani and Miller dividend indifference theorem, if investors could choose between a \$1.00 dividend today and \$1.10 dividend one year from today

- A) they would prefer \$1.00 today.
- B) they would prefer \$1.10 one year from today.
- C) neither alternative would satisfy them.
- D) they would have no preference.

Answer: <https://biology-forums.com/index.php?topic=642042>

Question 1703

Which of the following factors might cause the sales forecast for a brick and mortar retailer to differ from the simple continuation of past trends?

- A) The increasing popularity of internet shopping.
- B) A sharp increase or decrease in employment rates.
- C) A major competitor closes several nearby stores.
- D) Any of the above.

Answer: <https://biology-forums.com/index.php?topic=642178>

Question 1704

An optimal capital structure is achieved

- A) when a firm's expected profits are maximized.
- B) when a firm's expected EPS are maximized.

C) when a firm's expected stock price is maximized.

D) when a firm's break-even point is achieved.

Answer: <https://biology-forums.com/index.php?topic=641860>

Question 1705

Which of the following is NOT an element of the cash budget?

A) Cash receipts

B) Cash disbursements

C) Depreciation expense

D) New financing needed

Answer: <https://biology-forums.com/index.php?topic=642260>

Question 1706

The pecking order theory of capital structure indicates that firms prefer to finance investment opportunities with least expensive forms of financing first and the most expensive last.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641888>

Question 1707

Solstice Corporation has current assets of \$10 million and current liabilities of \$8 million. Solstice's current ratio is _____ and its net working capital is _____.

A) 1.25, \$10 million

B) 1.25, \$2 million

C) 2, \$1.25 million

D) .8, (\$2 million)

Answer: <https://biology-forums.com/index.php?topic=642296>

Question 1708

Bond ratings directly affect a bond's

A) spread over the Treasury yield.

B) coupon rate.

C) maturity date.

D) call provisions.

Answer: <https://biology-forums.com/index.php?topic=641134>

Question 1709

Investment grade bonds are rated BB or lower.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641164>

Question 1710

Advantages of privately placing debt include all of the following EXCEPT

A) speed.

B) reduced placement costs.

C) restrictive covenants.

D) flexibility.

Answer: <https://biology-forums.com/index.php?topic=641103>

Question 1711

A serious pitfall in the interpretation of financial ratios arises when a company, whose business is seasonal, ends its accounting year on March 31, while most companies in the same industry end their accounting period on December 31.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640714>

Question 1712

The change between a firm's beginning cash balance and ending cash balance would equal

A) cash flow from operations + cash flow from investing activities + cash flow from financing activities

B) the change in current assets minus the change in current liabilities.

C) net income plus new borrowing minus asset purchases.

D) total assets minus total liabilities minus total stockholders' equity.

Answer: <https://biology-forums.com/index.php?topic=640580>

Question 1713

Total risk equals unsystematic risk times systematic risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641054>

Question 1714

Dividends tend to be higher for firms with stable earnings.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641999>

Question 1715

Calculate the effective cost of the following trade credit terms if the discount is foregone and payment is made on the net due date.

a. 2/15 net 30

b. 2/15 net 45

c. 2/15 net 60

Answer: <https://biology-forums.com/index.php?topic=642507>

Question 1716

An advantage of balance sheet numbers is that assets reflect current market values.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640575>

Question 1717

Working capital refers to investment in current assets, while net working capital is the difference between current assets and current liabilities.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642300>

Question 1718

Which of the following is a vehicle for controlling exchange rate risk?

A) The purchase of a cross-rate index

B) The purchase of a LEAP

C) The purchase of a spot-rate index

D) A currency swap

Answer: <https://biology-forums.com/index.php?topic=643167>

Question 1719

Which of the following types of insurance does NOT involve a contract with an external party?

A) Property insurance

B) Life insurance

C) Directors and officers insurance

D) Self insurance

Answer: <https://biology-forums.com/index.php?topic=642870>

Question 1720

Which of the following overhead expenses is a relevant, incremental cash flow?

A) The project will represent 10% of the firm's revenues, so 10% of the CEO's compensation is allocated to the project.

B) The project will occupy 10% of the firm's available space, so 10% of the firm's property insurance is allocated to the project.

C) The project will increase the number of employees by 10%, so an additional human resources assistant must be hired to handle personnel issues directly related to the project.

D) None of the expenses above should be allocated to the project.

Answer: <https://biology-forums.com/index.php?topic=641454>

Question 1721

The foreign exchange market is similar in form to the New York Stock Exchange.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642662>

Question 1722

Differences in accounting practices limit the use of ratio analysis.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640715>

Question 1723

Corporations should spread responsibility for monitoring risk among as many different individuals as possible.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642854>

Question 1724

What is the role of arbitrage in the foreign exchange markets?

Answer: <https://biology-forums.com/index.php?topic=642713>

Question 1725

Which of the following best represents the stream of income that is available to stockholders?

- A) Net profit after tax.
- B) Earnings before interest, taxes and dividends
- C) Gross profit
- D) Operating profit

Answer: <https://biology-forums.com/index.php?topic=640536>

Question 1726

Which of the following would NOT be considered an unsecured loan?

- A) Accrued tax payments
- B) Line of credit
- C) Transaction loans
- D) Factored accounts receivable

Answer: <https://biology-forums.com/index.php?topic=642456>

Question 1727

ZZZ Corporation had net income of \$100 million last year and 50 million common shares outstanding. They declared an 8% stock dividend. Calculate EPS before and after the stock dividend.

- A) EPS before would be \$2; after the dividend, EPS would be \$1.85.
- B) EPS before would be \$0.50; after the dividend, EPS would be \$0.46.
- C) Since they made \$100 million in net income, the EPS cannot change.
- D) There is not enough information to make this calculation.

Answer: <https://biology-forums.com/index.php?topic=642083>

Question 1728

If Quick Corp. foregoes the discount and pays for its purchases according to the terms of its trade credit, what is Quick's effective cost of using this source of credit?

- A) 24.83%
- B) 31.48%
- C) 36.73%
- D) 37.24%

Answer: <https://biology-forums.com/index.php?topic=642466>

Question 1729

A disadvantage involved in investing in marketable securities is that

- A) this reduces the risk of illiquidity.
- B) this investment increases net working capital.
- C) this investment offers a flexible means of financing.
- D) these assets offer low rates of return, commensurate with their risk.

Answer: <https://biology-forums.com/index.php?topic=642522>

Question 1730

Investments that have earned the highest rates of return over 1995-2015 also have

- A) the lowest risk.
- B) the highest standard deviation of returns.
- C) the largest market capitalization.
- D) the least sensitivity to inflation.

Answer: <https://biology-forums.com/index.php?topic=640950>

Question 1731

All else equal, which of the following is the most likely to occur if actual sales are much less than forecasted sales?

- A) The company will be in a better position to pay down most of its debt.
- B) The firm's actual investment in inventory will be unchanged from the amount forecasted.
- C) Accounts receivable will rise significantly above the forecast.
- D) The company might face a cash flow crunch.

Answer: <https://biology-forums.com/index.php?topic=642353>

Question 1732

Most firms use the payback period as a secondary capital-budgeting technique, which in a sense allows them to control for risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641441>

Question 1733

In the 4th year of project M, expected revenues will be \$4,750,000, variable costs will be \$4,000,000, depreciation expense \$180,000, and fixed cash costs \$570,000. Which of the following is true?

- A) Accounting income equals \$0.00
- B) Free cash flow equals \$180,000
- C) Free cash flow equals 0
- D) Both A and B are true.

Answer: <https://biology-forums.com/index.php?topic=641637>

Question 1734

A stock with a beta greater than 1.0 has lower nondiversifiable risk than a stock with a beta of 1.0.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641064>

Question 1735

The nominal rate of interest in Russia is 9.5% and the inflation rate is 8%. The nominal rate of interest in Canada is 2.5% and the inflation rate is zero. We would expect

- A) the ruble to strengthen against the dollar.
- B) the exchange rate between the Canadian dollar and the ruble to stay the same because of interest rate parity.
- C) the exchange rate between the Canadian dollar and the ruble to stay the same because of purchasing price parity.
- D) the Canadian dollar to strengthen against the ruble.

Answer: <https://biology-forums.com/index.php?topic=642743>

Question 1736

The shareholder can cast all votes for a single candidate or split them among various candidates through

- A) proxy fights.
- B) cumulative voting.
- C) call provisions.
- D) majority voting.

Answer: <https://biology-forums.com/index.php?topic=641255>

Question 1737

Which of the following require adjustments when forecasting asset needs as a percent of sales?

- A) If assets must be purchased in large, discrete quantities
- B) When the firm has excess capacity.
- C) When assets can be leased rather than purchased.
- D) Both A & B.

Answer: <https://biology-forums.com/index.php?topic=642181>

Question 1738

A stock with a beta greater than 1.0 has returns that are _____ volatile than the market, and a stock with a beta of less than 1.0 exhibits returns which are _____ volatile than those of the market portfolio.

- A) more, more
- B) more, less
- C) less, more
- D) less, less

Answer: <https://biology-forums.com/index.php?topic=641038>

Question 1739

Explain why the investor's required return on debt is not equal to the corporation's cost of debt, and explain why the investor's required return on equity is not equal to the corporation's cost of equity.

Answer: <https://biology-forums.com/index.php?topic=641762>

Question 1740

If a market is weak form efficient, an investor can make higher than expected profits by studying the past price patterns of a stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640983>

Question 1741

Warchester Inc. is considering the purchase of a 3-D printer that will require an initial investment of \$15,000. The printer will produce parts at a net savings of \$4,000 per year in operating costs. The company will use a discount rate of 8.5%. What is the NPV of this equipment to the nearest dollar?

- A) \$5,000
- B) \$15,703
- C) \$703
- D) \$763

Answer: <https://biology-forums.com/index.php?topic=641356>

Question 1742

Enchanted Hearth expects to sell 1,200 wood pellet stoves in 2011 at an average price of \$2,400 each. It believes that unit sales will grow between -5% and +5% per year and prices will rise or fall by as much as 5% per year. Forecast sales revenue for 2013 if the number of units sold increases by 5% per year and prices remain flat.

- A) \$2,880,000
- B) \$3,168,000
- C) \$3,333,960
- D) \$3,175,200

Answer: <https://biology-forums.com/index.php?topic=641597>

Question 1743

Employees who propose capital projects often have a vested interest in getting them accepted.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641578>

Question 1744

How should corporations decide when to self insure against certain risks and when to purchase insurance from outside parties?

Answer: <https://biology-forums.com/index.php?topic=642890>

Question 1745

What is the value of d_1 that should be used when calculating the value of a call option on this stock with the Black-Scholes option pricing model?

- A) .33464
- B) .07483
- C) .40822
- D) .01842

Answer: <https://biology-forums.com/index.php?topic=643155>

Question 1746

Under current accounting rules, plant and equipment appear on a company's balance sheet valued at replacement value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640573>

Question 1747

An appropriate tool to analyze the interaction of various value drivers for Destroya Extermination Services would be

- A) simulation.
- B) scenario analysis.
- C) sensitivity analysis.
- D) either A or B.

Answer: <https://biology-forums.com/index.php?topic=641610>

Question 1748

Futures contracts differ from forward contracts in that

- A) they can be used by financial managers to reduce risk.
- B) they provide their holder with an opportunity to buy or sell an asset at some future time if the asset's value has changed in a manner favorable to the futures contract holder.
- C) they sustain a small change in value when there is a small change in the price of the underlying commodity.
- D) they are for standardized commodities in standardized quantities and have standardized expiration dates.

Answer: <https://biology-forums.com/index.php?topic=642969>

Question 1749

High discount rates favor

- A) neither long-term nor short-term investments.
- B) both long-term and short-term investments.
- C) long-term investments.
- D) short-term investments.

Answer: <https://biology-forums.com/index.php?topic=640777>

Question 1750

Fibonacci Property Management's balance sheet shows total liabilities of \$5 million and total assets of \$13 million. Interest bearing liabilities total \$3 million (book value). Excess cash \$500,000. The market value of Fibonacci's equity is \$21 million. Fibonacci's Debt to Enterprise Value ratio is

- A) .38.
- B) .23.
- C) .125.
- D) .106.

Answer: <https://biology-forums.com/index.php?topic=641836>

Question 1751

Billing's Pit Corporation has an accounts receivable turnover ratio of 3.4. What is Billing's Pit Corporation's average collection period?

- A) 107 days
- B) 102 days
- C) 73 days
- D) 55 days

Answer: <https://biology-forums.com/index.php?topic=640628>

Question 1752

Briefly explain what the empirical evidence suggests about financial managers' actions as they relate to the capital structure theory.

Answer: <https://biology-forums.com/index.php?topic=641895>

Question 1753

The indifference level of EBIT is

- A) \$99,000.
- B) \$66,600.
- C) \$333,000.
- D) \$297,000.

Answer: <https://biology-forums.com/index.php?topic=641926>

Question 1754

Assume that a particular firm has a total asset turnover ratio lower than the industry norm. In addition, this firm's current ratio and acid test ratio also meet industry standards. Based on this information, we can conclude that this firm must have excessive

- A) accounts receivable.

- B) fixed assets.
- C) debt.
- D) inventory.

Answer: <https://biology-forums.com/index.php?topic=640658>

Question 1755

Which of the following would be considered a terminal cash flow?

- A) The expected salvage value of the asset
- B) Any tax payments or refunds associated with the salvage value of the asset
- C) Recapture of any investment in working capital that was included as an incremental cash outlay
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641452>

Question 1756

The higher a firm's P/E ratio, the more optimistic investors' feel about the firm's growth prospects.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641288>

Question 1757

Beta is the slope of a straight line that best fits the returns on an asset plotted against the return on

- A) inflation.
- B) a portfolio of companies in the same industry.
- C) a broad market index.
- D) treasury bonds.

Answer: <https://biology-forums.com/index.php?topic=641042>

Question 1758

Mass Waste Disposal Inc. is considering the construction of a facility at a cost of \$20 million. The project will produce positive cash flows of \$7 million per year for the next 4 years but the 5th and final year will have a net negative cash flow of \$5 million. If the discount rate is 10%, the MIRR of this project is _____ and the project should be _____.

- A) 8.16%, rejected.
- B) 9.11% , accepted
- C) 7.40, rejected
- D) 8.16 accepted.

Answer: <https://biology-forums.com/index.php?topic=641403>

Question 1759

If depreciation expense is taken over 5 years rather than 3 years, all things equal,

- A) net present value will go down.
- B) depreciation has no effect on net present value.
- C) net present value will go up.
- D) the answer depends on the company's marginal tax rate.

Answer: <https://biology-forums.com/index.php?topic=641486>

Question 1760

that appears in your text. (Sources The Wall Street Journal, Reuters)

Country/Currency In US\$ Per US\$

India (Rupee)	.01468	68.1301
Britain (Pound)	1.4504	.6895
Canada (Dollar)	0.7219	1.3853
Switzerland franc	1.0233	.9772

23) To buy one Indian Rupee you would need

- A) 1.468 cents.
- B) 68.13 cents
- C) 14.68 cents.
- D) 6.813 cents

Answer: <https://biology-forums.com/index.php?topic=642611>

Question 1761

On an accrual basis income statement, revenues and expenses always match the firm's cash flow.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640544>

Question 1762

If the ROE on a new investment is less than the firm's required rate of return

- A) the investment increases the firm's value.
- B) the investment leaves the firm's value unchanged.
- C) the effect on the firm's value is unpredictable.
- D) the investment reduces the firm's value.

Answer: <https://biology-forums.com/index.php?topic=641284>

Question 1763

The pecking order theory of capital structure is derived from

- A) expectations theory.
- B) the Modigliani-Miller theory.
- C) liquidity preference theory.
- D) agency theory.

Answer: <https://biology-forums.com/index.php?topic=641875>

Question 1764

How is interest expense that is associated with a project treated in the capital budgeting process?

- A) It is treated as a cash outflow when estimating the incremental cash flows associated with a project.
- B) It is built into the discount rate.
- C) It is considered a synergistic incremental cash flow.
- D) Interest expense is not relevant to any capital budgeting decisions.

Answer: <https://biology-forums.com/index.php?topic=641453>

Question 1765

The efficiency of foreign currency markets is ensured, in large measure, by the process of arbitrageurs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642668>

Question 1766

The foreign exchange market provides a physical entity that transfers the purchasing power from one currency to another.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642674>

Question 1767

Depreciation expenses affect tax-related cash flows by

- A) increasing taxable income, thus increasing taxes.
- B) decreasing taxable income, thus reducing taxes.
- C) decreasing taxable income, but not altering cash flows since depreciation is not a cash expense.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641451>

Question 1768

You have just won a magazine sweepstakes and have a choice of three alternatives. You can get \$100,000 now, or \$10,000 per year in perpetuity, or \$50,000 now and \$150,000 at the end of 10 years. If the appropriate discount rate is 12%, which option should you choose?

- A) \$100,000 now
- B) \$10,000 perpetuity
- C) \$50,000 now and \$150,000 in 10 years

Answer: <https://biology-forums.com/index.php?topic=640915>

Question 1769

Which of the following typically would NOT affect the dividend policy of the firm?

- A) Today's dividend policy is affected by future dividend expectations among investors.

- B) Managers are afraid to decrease their voting control of the company by issuing stock dividends.
C) The failure of so many high-tech and dot.com companies showed that dividends are important to long-term investors.
D) The current and future cash flow expectations of the company affect dividend policy.

Answer: <https://biology-forums.com/index.php?topic=642065>

Question 1770

International Financial Reporting Standards (IFRS)

- A) are not acceptable for use by U.S. companies.
B) are growing in acceptance for use by U.S. companies.
C) have completely replaced GAAP since 2007.
D) are far more complicated and rigid than GAAP.

Answer: <https://biology-forums.com/index.php?topic=640517>

Question 1771

Lorna Dome, Inc. has an annual interest expense of \$30,000. Lorna Dome's times-interest-earned ratio is 4.2. What is Lorna Dome's operating income?

- A) \$96,000
B) \$57,000
C) \$126,000
D) \$57,600

Answer: <https://biology-forums.com/index.php?topic=640636>

Question 1772

Banner's projected fixed assets for 2018 are

- A) \$1,120,000.
B) \$1,260,000.
C) \$1,000,000.
D) \$2,380,000.

Answer: <https://biology-forums.com/index.php?topic=642207>

Question 1773

Empirical evidence is conclusive that dividend policy matters.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642097>

Question 1774

Your firm is trying to determine its cash disbursements for the next two months (June and July). In any month, the firm makes purchases of 60% of that month's sales, which are paid the following month. In addition, the firm incurs the following costs every month and pays for them in the month the expenses are incurred: wages/salaries of \$10,000, rent of \$4,000, and miscellaneous cash expenses of \$1,000. Depreciation amortized on a monthly basis is \$2,000. June's sales are expected to be \$100,000, and July's sales are expected to be \$150,000. Cash disbursements for the month of July are expected to be

- A) \$105,000.
B) \$107,000.
C) \$77,000.
D) \$75,000.

Answer: <https://biology-forums.com/index.php?topic=642258>

Question 1775

Which of the following will increase return on equity?

- A) An increase in sales with a proportionate increase in costs and expenses
B) An increase in sales relative to the asset base
C) A decrease in leverage
D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=640673>

Question 1776

Durand Chemicals with headquarters in Delaware issues bonds in France with interest and principal payable in U.S. dollars. This bond is

- A) a convertible bond.
B) a Eurobond.
C) a discounted bond.

D) a subordinated debenture.

Answer: <https://biology-forums.com/index.php?topic=641199>

Question 1777

Short-term financial planning results in

- A) a cash budget.
- B) pro forma financial statements.
- C) a sales forecast for the next 1 to 3 years.
- D) a general narrative detailing near-term scenarios.

Answer: <https://biology-forums.com/index.php?topic=642160>

Question 1778

A manufacturer of breakfast cereals should always be fully hedged against both rising and falling grain prices.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642852>

Question 1779

Prices differences of identical items in different currencies can best be explained by the international Fisher effect.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642759>

Question 1780

Adams Inc. expects EBIT of \$50 million if there is a recession, \$100 million if the economy is normal, and \$150 million if the economy expands. Bellingham Inc. also expects EBIT of \$50 million if there is a recession, \$100 million if the economy is normal, and \$150 million if the economy expands. Adams is financed entirely with equity while Bellingham is financed 50% with debt at 10%. Adams has \$200 million in equity; Bellingham is financed with \$100 million of debt and \$100 million of equity. The tax rate is 30%. Both firms pay out all available earnings as dividends. If there is a recession, compare dividends and total distributions to investors for each company.

Answer: <https://biology-forums.com/index.php?topic=641892>

Question 1781

The margin on a futures contract refers to the amount of equity the investor initially paid to purchase the futures contract.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643023>

Question 1782

Which of the following provides the greatest annual interest?

- A) 10% compounded annually
- B) 9.5% compounded monthly
- C) 9% compounded quarterly
- D) 8.5% compounded daily

Answer: <https://biology-forums.com/index.php?topic=640801>

Question 1783

The goal of profit maximization is equivalent to the goal of maximization of share value.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640424>

Question 1784

Long-term financial plans must include capital expenditures.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642217>

Question 1785

The market risk premium is measured by

- A) beta.
- B) market return less risk-free rate.
- C) T-bill rate.
- D) standard deviation.

Answer: <https://biology-forums.com/index.php?topic=641080>

Question 1786

The best estimate of the cost of new common equity is

- A) 11.00%.
- B) between 11.0%. and 11.2%
- C) 11.50%.
- D) between 10%. and 12%

Answer: <https://biology-forums.com/index.php?topic=641737>

Question 1787

If you invest \$750 every six months at 8% compounded semi-annually, how much would you accumulate at the end of 10 years?

- A) \$10,065
- B) \$10,193
- C) \$22,334
- D) \$21,731

Answer: <https://biology-forums.com/index.php?topic=640813>

Question 1788

Assume that the current price of DEY stock is \$25, that a 6 month call option on the stock has a strike or exercise price of \$27.50, the risk free rate is 4%, and that you have calculated $N(d_1)$ as .5476 and $N(d_2)$ as .4432. Use the Black-Scholes model to calculate the price of the option.

- A) \$1.74
- B) \$4.20
- C) 1.98
- D) \$2.50

Answer: <https://biology-forums.com/index.php?topic=643048>

Question 1789

Assume that an importer of wine were to purchase 5,000 cases of premium French Bordeaux for 700,000 euro. Further assume that the quoted exchange rates are as follows: spot rate = .9542 euro to the U.S. dollar; 30-day forward rate = .9502 euro to the U.S. dollar; and 90-day forward rate = .9498 euro to the U.S. dollar. If the actual currency exchange rate at the time payment is due in 90 days is equal to the forward rate of .778 euro to the U.S. dollar, how much would the wine cost the importer in U.S. dollars if payment is made in 90 days? Round to the nearest dollar.

- A) \$949,800
- B) \$664,860
- C) \$105,285
- D) \$736,997

Answer: <https://biology-forums.com/index.php?topic=642604>

Question 1790

In finance, we assume that investors are generally

- A) neutral to risk.
- B) averse to risk.
- C) fond of risk.
- D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=640433>

Question 1791

Roberts, Inc. is trying to decide how best to finance a proposed \$10 million capital investment. Under Plan I, the project will be financed entirely with long-term 9% bonds. The firm currently has no debt or preferred stock. Under Plan II, common stock will be sold to net the firm \$20 a share; presently, 1 million shares are outstanding. The corporate tax rate for Roberts is 40%.

- a. Calculate the indifference level of EBIT associated with the two financing plans.
- b. Which financing plan would you expect to cause the greatest change in EPS relative to a change in EBIT? Why?
- c. If EBIT is expected to be \$3.1 million, which plan will result in a higher EPS?

Answer: <https://biology-forums.com/index.php?topic=641937>

Question 1792

Debt ratios and debt to enterprise value ratios differ widely from one industry to another.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641847>

Question 1793

Which of the following is a reason that a company would repurchase its own shares of stock in the market?

- A) To reduce cash and the number of shares outstanding
- B) To increase outstanding equity shares
- C) To have shares available to offer a merger target
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=642071>

Question 1794

A negative coefficient of correlation implies that

- A) on average, returns to such assets are negative.
- B) asset returns tend to move in opposite directions.
- C) asset return tend to move in opposite directions.
- D) None of the above because the coefficient of correlation cannot be negative.

Answer: <https://biology-forums.com/index.php?topic=641002>

Question 1795

Your bank has agreed to loan you \$3,000 if you agree to pay a lump sum of \$5,775 in five years. What annual rate of interest will you be paying?

Answer: <https://biology-forums.com/index.php?topic=640772>

Question 1796

When constructing a portfolio, it is a good idea to put all your eggs in one basket, then watch the basket closely.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641012>

Question 1797

Miller River Light is evaluating a project that will require an initial investment of \$350,000. Miller River uses a 12% discount rate for capital projects of this type. What level of operating cash flows over a period of 5 years will cause the project to reach break-even NPV? Assume cash flows come in the form of an end-of-the-year annuity.

- A) \$70,000.00
- B) \$97,093.41
- C) \$92,329.12
- D) \$86,690.54

Answer: <https://biology-forums.com/index.php?topic=641645>

Question 1798

As a firm's investment opportunities increase, the dividend payout ratio should increase.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642091>

Question 1799

You deposit \$5,000 today in an account drawing 12% compounded quarterly. How much will you have in the account at the end of 2 1/2 years?

- A) \$7,401
- B) \$5,523
- C) \$7,128
- D) \$6,720

Answer: <https://biology-forums.com/index.php?topic=640754>

Question 1800

The size of capital investments and the difficulty in reversing them once they are made make capital-budgeting decisions very important to the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641336>

Question 1801

Frosty's Frozen Food Inc.'s inventory balance is \$1.22 million. Frosty's Cost of Good's Sold is \$30.4 million. It's inventory conversion period

- A) 12 days.
- B) 24.92 days.
- C) 14.65 days.

D) 299.2 days.

Answer: <https://biology-forums.com/index.php?topic=642389>

Question 1802

The price of a Big Mac is more or less the same everywhere in the world.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642763>

Question 1803

The expected rate of return is the weighted average of the possible returns for an investment.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640945>

Question 1804

As the compound interest rate increases, the present value of future cash flows decreases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640798>

Question 1805

The "pure play" approach to estimating a divisions WACC involves

- A) computing the value of the division if it were to be spun off as a separate company.
- B) comparisons to free standing firms with businesses similar to the division.
- C) "deleveraging" the division so that only the cost of equity is considered.
- D) using the company's WACC to estimate the value added by the division.

Answer: <https://biology-forums.com/index.php?topic=641799>

Question 1806

Prince Co.'s inventory turnover ratio is 30.4. It's inventory conversion period is

- A) 12 days.
- B) 30.4 days.
- C) 2.5 days.
- D) There is not enough information.

Answer: <https://biology-forums.com/index.php?topic=642385>

Question 1807

The key ingredient in a firm's financial planning is the sales forecast.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642164>

Question 1808

You are considering purchasing common stock in AMZ Corporation. You anticipate that the company will pay dividends of \$5.00 per share next year and \$7.50 per share in the following year. You also believe that you can sell the common stock two years from now for \$30.00 per share. If you require a 14% rate of return on this investment, what is the maximum price that you would be willing to pay for a share of AMZ common stock?

Answer: <https://biology-forums.com/index.php?topic=640925>

Question 1809

What are the consequences of excessive optimism or pessimism in forecasting expected project cash flows?

Answer: <https://biology-forums.com/index.php?topic=641582>

Question 1810

The present value of \$1,000 to be received at the end of five years, if the discount rate is 10%, is

- A) \$621.
- B) \$784.
- C) \$614.
- D) \$500.

Answer: <https://biology-forums.com/index.php?topic=640790>

Question 1811

The market rewards assuming additional unsystematic risk with additional returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641061>

Question 1812

Difficulties in estimating a divisional cost of capital include

- A) it may be difficult to construct a sample of free standing companies that closely mimic the division's operations.
- B) the division may have a different capital structure from the comparison firms.
- C) the division's projects may be at various stages of development.
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=641797>

Question 1813

An issue of preferred stock currently sells for \$52.50 per share and pays a constant annual expected dividend of \$2.25 per share. The expected return on this security is

- A) 4.29%.
- B) 0.04%.
- C) 8.33%.
- D) 13.33%.

Answer: <https://biology-forums.com/index.php?topic=641314>

Question 1814

Which of the basic financial statements is best used to answer questions about changes in owner's equity that are not explained by the income statement?

- A) Balance sheet
- B) Statement of shareholder's equity
- C) Income statement
- D) Cash flow statement

Answer: <https://biology-forums.com/index.php?topic=640513>

Question 1815

The goal of maximize shareholder wealth inevitably conflicts with socially responsible behavior on the part of corporation.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640426>

Question 1816

You are considering investing in a firm that has the following possible outcomes:

Economic boom: probability of 25%; return of 25%

Economic growth: probability of 60%; return of 15%

Economic decline: probability of 15%; return of -5%

What is the standard deviation of returns on the investment?

- A) 84.75%
- B) 15.28%
- C) 12.47%
- D) 9.21

Answer: <https://biology-forums.com/index.php?topic=640940>

Question 1817

Cape Cod Cranberries is evaluating the introduction of a new line of organic cranberry products. Market research suggests that approximates 1/3 of sales of the new products will come at the expense of existing product lines. How should this "cannibalization effect" be incorporated into the analysis.

Answer: <https://biology-forums.com/index.php?topic=641478>

Question 1818

Although the rates have changed from time to time, dividends and capital gains have always been taxed at the same rate in the U.S.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642095>

Question 1819

Accrued wages and taxes provide sources of financing that rise and fall spontaneously with the level of the firm's sales.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642499>

Question 1820

Which of the following is NOT a spontaneous source of financing?

- A) Accrued salaries payable
- B) Loans secured by accounts receivable
- C) Accrued taxes payable
- D) Accounts payable

Answer: <https://biology-forums.com/index.php?topic=642343>

Question 1821

When calculating either discount rates or the number of periods using a financial calculator, the PV and FV must have opposite signs.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640800>

Question 1822

Patriot Corporation purchased manufacturing equipment with an expected useful life of five years. The purchase of the machinery would be shown as

- A) an expense on the balance sheet.
- B) an expense on the income statement.
- C) an asset on the balance sheet.
- D) both an expense and an asset.

Answer: <https://biology-forums.com/index.php?topic=640568>

Question 1823

By examining cash flows, we are correctly able to analyze the timing of the benefits.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641531>

Question 1824

Kannan Carpets, Inc. has asked you to calculate the company's current ratio for 2016. All you have is a partial balance sheet and some assumptions. Using the information provided, calculate Kannan's current ratio for 2001.

Gross profit margin = 50%

Inventory turnover (COGS/Inv) = 5

2016 sales = \$3,000

Assets Liabilities & Equity

Cash ? Accounts payable \$50

AR \$40 Accruals ?

Inventory ? Long-term debt \$400

Net fixed assets \$500 Equity 250

Total assets \$900 Total liab. & equity ?

- A) 0.3
- B) 0.8
- C) 1.6
- D) 2.2

Answer: <https://biology-forums.com/index.php?topic=640653>

Question 1825

The minimum value of a call option equals

- A) exercise price - the stock price.
- B) stock price - exercise price.
- C) call premium - (stock price - exercise price).
- D) put premium - (exercise price - stock price).

Answer: <https://biology-forums.com/index.php?topic=642979>

Question 1826

Siebling Manufacturing Company's common stock has a beta of .8. If the expected risk-free return is 2% and the market offers a premium of 8% over the risk-free rate, what is the expected return on Siebling's common stock?

- A) 7.8%
- B) 13.4%

C) 14.4%

D) 8.4%

Answer: <https://biology-forums.com/index.php?topic=641068>

Question 1827

Analysts may choose different companies for peer comparison depending on the purpose for which the analysis is being performed.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640708>

Question 1828

What is the present value of \$300 received at the beginning of each year for five years? Assume that the first payment is not received until the beginning of the third year (thus the last payment is received at the beginning of the seventh year). Use a 10% discount rate, and round your answer to the nearest \$1.00.

A) \$1,137

B) \$854

C) \$940

D) \$1,257

Answer: <https://biology-forums.com/index.php?topic=640827>

Question 1829

To repay a \$2,000 loan from your bank, you promise to make equal payments every six months for the next five years totaling \$3,116.20. What annual rate of interest will you be paying?

Answer: <https://biology-forums.com/index.php?topic=640882>

Question 1830

The payback method focuses primarily on the length of time required to recover the cost of the investment rather than estimating the total value the project will add to the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641416>

Question 1831

Which of the following statements is correct?

A) The project should be accepted since its NPV is \$353.87.

B) The project should be rejected since its NPV is -\$353.87.

C) The project should be accepted since it has a payback of less than four years.

D) The project should be rejected since its NPV is -\$23.91.

Answer: <https://biology-forums.com/index.php?topic=641358>

Question 1832

2015 U.S. Corporate tax rates are shown below:

Taxable Income Marginal Tax Rate

\$0-\$50,000 15%

\$50,001-\$75,000 25%

\$75,001-\$100,000 34%

\$100,001-\$335,000 39%

\$335,001-\$10,000,000 34%

\$10,000,001-\$15,000,000 35%

\$15,000,001-\$18,333,333 38%

Over \$18,333,333 35%

Bouffard Co. has earnings before taxes of \$100,000,000 in 2015. The company's tax expense will be

A) \$3,500,000.

B) \$36,500,000.

C) \$31,875,000.

D) \$35,000,000.

Answer: <https://biology-forums.com/index.php?topic=640549>

Question 1833

How does the text distinguish between firm's financial structure and its capital structure?

A) Financial structure includes only interest bearing debt

B) Capital structure includes only non-interest bearing debt

- C) Financial structure uses market values of equity
- D) Capital structure includes only interest bearing debt

Answer: <https://biology-forums.com/index.php?topic=641842>

Question 1834

Within the context of working capital management, the risk-return trade-off involves an increased risk of illiquidity versus increased profitability. True / False?

Answer: <https://biology-forums.com/index.php?topic=642304>

Question 1835

Ahmad bought put options on Home Depot with a strike price of \$130. The option premium was \$2.83. Just before the contract expired, Home Depot stock was at \$132.83 per share. Ahmad

- A) made a profit of \$2.83 per share.
- B) lost \$2.83 per share because the option would not be exercised.
- C) lost \$1.5.66 per share.
- D) made a profit of \$5.66 per share.

Answer: <https://biology-forums.com/index.php?topic=642961>

Question 1836

Which one of the following categories of owners enjoys limited liability?

- A) General partners in a limited partnership or limited liability company.
- B) Shareholders (common stock) of a corporation
- C) Sole proprietors
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=640382>

Question 1837

Approximately what percentage of new businesses fail in their first year?

- A) 20%
- B) 40%
- C) 60%
- D) 80%

Answer: <https://biology-forums.com/index.php?topic=641572>

Question 1838

Porter Climate Control is evaluating a proposal to move some manufacturing operations from an obsolescent plant in Illinois to a new facility in Mexico. The new facility will cost \$58 million to open, and is expected to result in savings of \$16 million per year for the first five years. At the end of 5 years, Porter will decide either to close the plant in Mexico or to keep it indefinitely. If Porter closes the plant, the building and equipment can be sold for \$20,000,000. If the plant is kept, assume that the \$16 million turns into a perpetuity. There is a 30% chance the plant will be closed and a 70% chance it will be kept. Compute the expected NPV of the project. Use a discount rate of 12%.

- A) \$75.32 million
- B) (\$30.32 million)
- C) \$56.04 million
- D) \$114.04 million

Answer: <https://biology-forums.com/index.php?topic=641673>

Question 1839

The most you can ever lose when you purchase a put or call option is the premium. True / False?

Answer: <https://biology-forums.com/index.php?topic=643031>

Question 1840

You are considering a home loan with monthly payments at an annual percentage yield of 5.116%. What is the quoted rate of interest on the loan?

- A) 4.5%
- B) 4.75%
- C) 5%
- D) 6%

Answer: <https://biology-forums.com/index.php?topic=640847>

Question 1841

As December 26, 2012, the spot rate for Swiss francs was 1.0917. The 3 month forward rate was 1.0939.

Compute the annualized percentage rate premium or discount for Swiss francs.

Answer: <https://biology-forums.com/index.php?topic=642709>

Question 1842

The longer the time to maturity, the more sensitive a bond's price to changes in market interest rates.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641159>

Question 1843

Abbot Corporation has an average collection period of 49 days, an inventory conversion period of 83 days, and a payables deferral period of 36 days.

What is Abbott's cash conversion cycle?

- A) 96 days
- B) 70 days
- C) 85 days
- D) 132 days

Answer: <https://biology-forums.com/index.php?topic=642393>

Question 1844

Franklin Electric is presently generating earnings available to common shareholders of \$7.25 per share. The firm's income tax rate is 40%. Franklin is paying a dividend to the preferred shareholders of \$2.10 per share. The firm's dividend payout ratio on common stock is 20%. What is the amount per share that Franklin will pay in dividends to common shareholders?

- A) \$0.58
- B) \$1.45
- C) \$3.12
- D) \$0.42
- E) \$2.20

Answer: <https://biology-forums.com/index.php?topic=642138>

Question 1845

It is not necessary to consider depreciation in estimating cash flows for a new capital project.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641527>

Question 1846

Aroma Candles, Inc. is evaluating a project with the following cash flows. Calculate the IRR of the project. (Round to the nearest whole percentage.)

Year Cash Flows

- 0 (\$120,000)
- 1 \$30,000
- 2 \$70,000
- 3 \$90,000

- A) 18%
- B) 23%
- C) 28%
- D) 33%

Answer: <https://biology-forums.com/index.php?topic=641409>

Question 1847

You purchased Photon, Inc. bonds exactly one year ago today for \$875. During the latest year, you received \$65 in interest on the bonds. The current yield on these bonds is 6.5%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641157>

Question 1848

Because a large part of a subsidiary's equity funds comes from the parent, the subsidiary should use the same cost of equity as the parent.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642808>

Question 1849

The P/E ratio is the market price of a share of stock divided by book equity per share.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641287>

Question 1850

When computing the NPV of a project, it is important to consistently use either nominal dollars and nominal rates or real dollars and real rates.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641549>

Question 1851

DAH, Inc. has issued a 12% bond that is to mature in nine years. The bond had a \$1,000 par value, and interest is due to be paid semiannually. If your required rate of return is 10%, what price would you be willing to pay for the bond?

Answer: <https://biology-forums.com/index.php?topic=641171>

Question 1852

Projects may appear to have less risk when real options are considered.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641680>

Question 1853

A & B Global's annual credit sales are \$18 million; the accounts receivable balance is \$1.5 million; the cost of goods sold is \$12.6 million; the inventory balance is \$350,000, and the balance in accounts payable is \$700,000.

- Compute A&B's operating cycle.
- Compute A&B's cash conversion cycle.

Answer: <https://biology-forums.com/index.php?topic=642416>

Question 1854

The last paid dividend is \$2 for a share of common stock that is currently selling for \$20. What is the cost of common equity if the long-term growth rate in dividends for the firm is expected to be 8%?

- 10.8%
- 12.8%
- 14.8%
- 16.8%
- 18.8%

Answer: <https://biology-forums.com/index.php?topic=641734>

Question 1855

The beta of ABC Co. stock is the slope of

- the security market line.
- the characteristic line for a plot of returns on the S&P 500 versus returns on short-term Treasury bills.
- the arbitrage pricing line.
- the line of best fit for a plot of ABC Co. returns against the returns of the market portfolio for the same period.

Answer: <https://biology-forums.com/index.php?topic=641040>

Question 1856

A barrel of oil currently costs \$60 in U.S. dollars. The current exchange rate is \$1.1256 U. S. to the euro. If purchasing power parity prevails what is the price of a barrel of oil in euros?

- 71.43 euro
- 58.36 euro
- 73.16 euro
- 53.30 euro

Answer: <https://biology-forums.com/index.php?topic=642729>

Question 1857

McKinny Enterprises must raise \$580,000 to pay off a bank loan at the end of the year. The firm expects sales of \$5,200,000 for the year. Depreciation for the year is \$315,000. The company's net profit margin is 5%. Can the company pay off its loan through the retention of earnings?

Answer: <https://biology-forums.com/index.php?topic=640698>

Question 1858

Which of the following is the most important factor motivating dividend policy for large American corporations?

- A) Changes in EPS
- B) Maintain constant dividend payout ratio
- C) Avoiding flotation costs of selling new stock
- D) Avoid reducing dividends per share

Answer: <https://biology-forums.com/index.php?topic=642130>

Question 1859

Six years ago, Colt, Inc. sold an issue of 30-year, \$1,000 par value bonds. The coupon rate of 5.25% is payable annually. Investors presently require a rate of return of 8.375%. What is the current market price (intrinsic value) of the bonds? Round off to the nearest \$1.

- A) \$1,050
- B) \$932
- C) \$681
- D) \$1,111

Answer: <https://biology-forums.com/index.php?topic=641141>

Question 1860

Negatively correlated assets are quite hard to find.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641015>

Question 1861

The Modigliani and Miller Capital Structure Theorem, in its original form

- A) uses unrealistic assumptions.
- B) provided important insights into capital structure policy.
- C) concludes that how a firm is financed is not important.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641852>

Question 1862

Calculate the following financial ratios for the Hokie Corporation using the information given in Table 4 and 2016 information.

- current ratio
- acid test ratio
- debt ratio
- long-term debt to total capitalization
- return on total assets
- return on common equity

Answer: <https://biology-forums.com/index.php?topic=640697>

Question 1863

Which of the following must be adjusted for the firm's tax rate when estimating the weighted average cost of capital WACC?

- A) Cost of common equity
- B) Cost of preferred stock
- C) Cost of debt
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641689>

Question 1864

The nominal rate of interest in Russia is 9.5% and the inflation rate is 8%. The nominal rate of interest in Spain is 3% and the inflation rate is 1%. Which country has the higher real rate of interest?

- A) Russia
- B) Spain
- C) There is no difference.
- D) There is not enough information

Answer: <https://biology-forums.com/index.php?topic=642740>

Question 1865

Which of the following terms would tend to minimize a firm's investment in accounts receivable?

- A) net 15
- B) net 30
- C) 1/15 net 45
- D) 2/10 net 30

Answer: <https://biology-forums.com/index.php?topic=642532>

Question 1866

Sensitivity analysis is the form of risk analysis

- A) that examines the relationship between total firm cash flows and the NPV of a particular project.
- B) that examines the volatility of NPV.
- C) that examines the impact of key variables such as sales or costs in various combinations.
- D) that examines the impact of key variables such as sales or costs one at a time.

Answer: <https://biology-forums.com/index.php?topic=641587>

Question 1867

The party that agrees to sell a commodity or currency in the forward market is said to have a

- A) long position.
- B) short position
- C) protected position.
- D) split position.

Answer: <https://biology-forums.com/index.php?topic=642900>

Question 1868

Companies faced with higher tax burdens are likely to use more debt.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641902>

Question 1869

A bond that is held to maturity

- A) will necessarily have a yield to maturity equal to the coupon rate.
- B) will necessarily earn the yield to maturity at the time of purchase.
- C) may earn more or less than its yield to maturity at the time of purchase because the rate at which coupons can be reinvested may change.
- D) will earn the yield to maturity at the date of maturity.

Answer: <https://biology-forums.com/index.php?topic=641137>

Question 1870

Describe the costs and benefits to investors of owning Mutual Funds.

Answer: <https://biology-forums.com/index.php?topic=640481>

Question 1871

Briefly discuss why financial decision makers must focus on incremental cash flows when evaluating new projects.

Answer: <https://biology-forums.com/index.php?topic=640454>

Question 1872

The cost of common equity using the CAPM is

- A) 11.00%.
- B) 11.20%.
- C) 11.50%.
- D) 11.72%.

Answer: <https://biology-forums.com/index.php?topic=641736>

Question 1873

Erin wrote a put option on Verizon stock with a striking price of \$53 per share. At the expiration date, Verizon was selling for \$50 per share. Which statement best describes the action that Erin should or must take?

- A) Erin will do nothing because the market price is lower than the striking price.
- B) Erin is obliged to buy the Verizon shares at \$53, even though the market price \$3.00 lower.
- C) Erin must sell the Verizon stock for \$53 per share.
- D) Erin has the right to sell Verizon stock at \$3.00 per share over the market price.

Answer: <https://biology-forums.com/index.php?topic=642977>

Question 1874

Acme Consolidated has a return on equity of 12%. If Acme distributes 60% of earnings as dividends, then we would expect the common shareholders' investment in the firm and the value of the common stock to grow by

- A) 4.80%.
- B) 7.20%.
- C) 12%.
- D) 6%.

Answer: <https://biology-forums.com/index.php?topic=641243>

Question 1875

In 2016, the U. S. A. comprised approximately _____ of the world's stock market capitalization.

- A) 20%
- B) 50%
- C) 75%
- D) 90%

Answer: <https://biology-forums.com/index.php?topic=642776>

Question 1876

An increase in projected _____ will increase discretionary funds needed.

- A) cash dividends
- B) sales
- C) retained earnings
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=642195>

Question 1877

Who owns the retained earnings of a public firm?

- A) The IRS
- B) Common stockholders
- C) Bondholders
- D) Preferred stockholders

Answer: <https://biology-forums.com/index.php?topic=640508>

Question 1878

A major factor impacting the demand for residential real estate is the availability of credit.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642848>

Question 1879

The area of finance that deals with long-term investment decisions is known as

- A) capital structure.
- B) working capital management.
- C) financial strategy.
- D) capital budgeting.

Answer: <https://biology-forums.com/index.php?topic=640372>

Question 1880

A decrease in _____ will increase gross profit margin.

- A) cost of goods sold
- B) depreciation expense
- C) interest expense
- D) both A and B

Answer: <https://biology-forums.com/index.php?topic=640644>

Question 1881

The purpose of a hedging strategy is to

- A) avoid speculation on future prices.

- B) speculate that future prices will be lower than the spot price.
- C) speculate that future prices will be higher than the spot price.
- D) avoid exposure to commodity rate risk.

Answer: <https://biology-forums.com/index.php?topic=642894>

Question 1882

On average, the market rewards assuming additional systematic risk with additional returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641062>

Question 1883

You have just purchased a share of preferred stock for \$50.00. The preferred stock pays an annual dividend of \$5.50 per share forever. What is the rate of return on your investment?

- A) 5.5%
- B) 1.0%
- C) 11.0 %
- D) 22.2%

Answer: <https://biology-forums.com/index.php?topic=640890>

Question 1884

The current total value of the firm is

- A) \$6,450,000.
- B) \$5,750,000.
- C) \$4,950,000.
- D) \$3,250,000.

Answer: <https://biology-forums.com/index.php?topic=641747>

Question 1885

A spot transaction occurs when one currency is

- A) deposited in a foreign bank.
- B) immediately exchanged for another currency.
- C) exchanged for another currency at a specified price.
- D) traded for another at an agreed-upon future price.

Answer: <https://biology-forums.com/index.php?topic=642574>

Question 1886

When an old asset is sold for exactly its depreciated value, the only taxable income is the difference between the initial cost of the machine and the selling price.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641522>

Question 1887

How could you compensate an investor for taking on a significant amount of risk?

- A) Increase the expected rate of return
- B) Raise more debt capital
- C) Offer stock at a higher price
- D) Increase sales

Answer: <https://biology-forums.com/index.php?topic=640438>

Question 1888

The financial crisis of 2008 and was caused in part by declining real estate values and defaults on mortgage payments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640493>

Question 1889

A cross rate is the computation of an exchange rate for a currency from the exchange rates of two other countries.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642658>

Question 1890

Which of the following is part of a firm's financial structure but NOT a component of its capital structure?

- A) Retained earnings
- B) Mortgage bonds
- C) Accounts payable
- D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=641881>

Question 1891

Which of the following is essentially a type of insurance policy, but is regulated as a financial derivative?

- A) A futures contract
- B) An interest rate swap
- C) A put option
- D) A credit default swap

Answer: <https://biology-forums.com/index.php?topic=643169>

Question 1892

Corporate debt can be privately placed with

- A) union pension funds.
- B) life insurance companies
- C) state pension funds
- D) all of the above

Answer: <https://biology-forums.com/index.php?topic=641104>

Question 1893

From the information presented in Table 3, calculate the following financial ratios for the Dooley Sportswear Company.

- current ratio
- operating profit margin
- acid test ratio
- net profit margin
- average collection period
- total tangible asset turnover
- inventory turnover
- times interest earned
- gross profit margin

Answer: <https://biology-forums.com/index.php?topic=640696>

Question 1894

According to the domestic Fisher effect, if the inflation rate is 3% and the real rate of interest is 2%, the nominal rate of interest will be

- A) 5.06%.
- B) 5.00%.
- C) 6%.
- D) 8.15%.

Answer: <https://biology-forums.com/index.php?topic=642734>

Question 1895

Why is it important to use market-based weights rather than balance sheet weights when estimating a company's weighted average cost of capital?

Answer: <https://biology-forums.com/index.php?topic=641791>

Question 1896

The Modigliani and Miller dividend irrelevancy theorem states that

- A) dividends are preferable to stock repurchases.
- B) the timing of cash distributions is important.
- C) the timing of cash distributions is unimportant.
- D) stock repurchases are preferable to dividends.

Answer: <https://biology-forums.com/index.php?topic=642035>

Question 1897

The Tradeoff Theory view of capital structure management says that the cost of capital curve is

- A) a straight line.
- B) v-shaped.
- C) s-shaped.

D) saucer-shaped.

Answer: <https://biology-forums.com/index.php?topic=641873>

Question 1898

Millers Metalworks, Inc. has a total asset turnover of 2.5 and a net profit margin of 3.5%. The total debt ratio for the firm is 50%. Calculate Millers's return on equity.

- A) 17.5%
- B) 19.5%
- C) 21.5%
- D) 23.5%

Answer: <https://biology-forums.com/index.php?topic=640630>

Question 1899

The writer or seller of an option is exposed to greater risk than the buyer of the option.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643003>

Question 1900

How much will you receive at the end of the 41st year (i.e., the first annuity payment)? Round to the nearest \$100.

- A) \$2,567
- B) \$7,800
- C) \$10,666
- D) \$9,523

Answer: <https://biology-forums.com/index.php?topic=640839>

Question 1901

Zorba's is a small chain of restaurants whose stock is not publicly traded. The average P/E ratio for similar restaurant chains is 16.5; the P/E ratio for the S&P 500 Index is 15.2. This year's earnings were \$1.21 per share and next year's earnings are forecasted at \$1.46 per share. A reasonable price for a share of Zorba's stock is

- A) \$24.
- B) \$20.
- C) \$18.
- D) \$16.

Answer: <https://biology-forums.com/index.php?topic=641285>

Question 1902

Project H requires an initial investment of \$100,000 and produces annual cash flows of \$45,000 per year for each of the next 3 years. Project T also requires an initial investment of \$100,000 and produces cash flows of \$30,000 in year 1, \$40,000 in year 2, and \$70,000 in year 3. If the discount rate is 10% and the projects are mutually exclusive

- A) Project H should be chosen.
- B) Project T should be chosen.
- C) H and T are equally attractive.
- D) Both projects should be chosen.

Answer: <https://biology-forums.com/index.php?topic=641349>

Question 1903

Betas for individual stocks tend to be stable.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641063>

Question 1904

Paxton Storage Systems is offering shareholders a choice between a \$1.00 dividend or the opportunity to sell the stock back to the company for \$20 per share. Dr. Gilbert owns 1000 shares, purchased at \$20 per share and wonders if there is any difference between taking the dividend for \$1,000 or selling 50 shares at \$20 per share. She would have to pay a 15% tax on either capital gains or dividends.

- A) By selling back the 50 shares, she will avoid taxes, but her remaining shares will be less valuable than if she chose the cash dividend.
- B) She will have the same amount of cash under either alternative.
- C) After taxes, she will have \$200 more if she takes the cash dividend.
- D) After taxes, she will have \$200 more if she chooses to sell the 50 shares.

Answer: <https://biology-forums.com/index.php?topic=642067>

Question 1905

The financial manager should examine available risk-return trade-offs and make his decision based upon the greatest expected return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640449>

Question 1906

Jain's Pharmaceuticals is installing new lab equipment at a cost of \$5 million with an economic life of 5 years. Jain's marginal tax rate is 35%. What is the difference in depreciation between straight line depreciation and MACRS depreciation in the second year.

- A) \$0.6 million
- B) \$1 million
- C) \$1.6 million
- D) \$1.75 million

Answer: <https://biology-forums.com/index.php?topic=641519>

Question 1907

UVP preferred stock pays \$5.00 in annual dividends. If your required rate of return is 13%, how much will you be willing to pay for one share?

- A) \$38.46
- B) \$26.26
- C) \$65.46
- D) \$46.38

Answer: <https://biology-forums.com/index.php?topic=641293>

Question 1908

What is the law of one price? How does it apply to foreign exchange rates?

Answer: <https://biology-forums.com/index.php?topic=642769>

Question 1909

Bond ratings measure the interest rate risk of a given bond issue.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641162>

Question 1910

Working capital for a project includes investment in fixed assets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641526>

Question 1911

Banner's projected accrued expenses for 2018 are

- A) \$120,000.
- B) \$160,000.
- C) \$100,000.
- D) \$200,000.

Answer: <https://biology-forums.com/index.php?topic=642209>

Question 1912

The residual dividend theory suggests that dividends should be paid to stockholders first, and then, what is left can be reinvested by the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642145>

Question 1913

Banner's projected long-term debt for 2018 is

- A) \$700,000.
- B) \$880,000.
- C) \$380,000.
- D) \$300,000.

Answer: <https://biology-forums.com/index.php?topic=642210>

Question 1914

If the issuing company becomes insolvent, the claims of the bondholders are honored before those of preferred stockholders.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641118>

Question 1915

Asset purchases frequently precede a rapid increase in sales and require increased discretionary financing.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642218>

Question 1916

ViteS Equipment Company has increased its inventory turnover ratio from 12 to 18. By how many days has it reduced the operating cycle?

- A) 20 days
- B) 6 days
- C) 10 days
- D) 1.5 days

Answer: <https://biology-forums.com/index.php?topic=642405>

Question 1917

Millbury Gas and Oil's rate of return on equity is 12%. It can either pay a dividend of \$5.00 today or reinvest the money and pay a dividend of \$5.60 at the end of the year. From a shareholder's point of view, the value of the dividend paid now is _____ and the value of the dividend paid a year from now is _____.

- A) \$5.00, \$4.46
- B) \$5.00, \$5.00
- C) \$4.46, \$5.00
- D) \$5.60, \$5.00

Answer: <https://biology-forums.com/index.php?topic=642039>

Question 1918

At what rate must \$400 be compounded annually for it to grow to \$716.40 in 10 years?

- A) 6%
- B) 5%
- C) 7%
- D) 8%

Answer: <https://biology-forums.com/index.php?topic=640738>

Question 1919

Net plant and equipment is

- A) plant and equipment purchases less amount borrowed to finance purchases.
- B) current year plant and equipment purchases less current year's depreciation expense.
- C) gross plant and equipment less accumulated depreciation.
- D) plant and equipment at current market valuations.

Answer: <https://biology-forums.com/index.php?topic=640561>

Question 1920

When new capital must be raised for an expansion project, flotation costs should

- A) be deducted from the operating cash flows.
- B) increase the initial investment outlay.
- C) be considered in recomputing the firm's overall WACC.
- D) be ignored.

Answer: <https://biology-forums.com/index.php?topic=641813>

Question 1921

World Wide Interlink Corp. has decided to undertake a large project. Consequently, there is a need for additional funds. The financial manager plans to issue preferred stock with an annual dividend of \$5 per share. The stock will have a par value of \$30. If investors' required rate of return on this investment is currently 20%, what should the preferred stock's market value be?

- A) \$10
- B) \$15

- C) \$20
- D) \$25

Answer: <https://biology-forums.com/index.php?topic=641298>

Question 1922

Three years from now, Barbara Waters will purchase a laptop computer that will cost \$2,250. Assume that Barbara can earn 6.25% (compounded monthly) on her money. How much should she set aside today for the purchase? Round off to the nearest \$1.

- A) \$1,250
- B) \$900
- C) \$1,866
- D) \$3,775

Answer: <https://biology-forums.com/index.php?topic=640781>

Question 1923

As the time to maturity increases, the maturity premium increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641217>

Question 1924

The effective cost to the borrower of an unsecured bank loan is increased if a compensating balance is required.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642480>

Question 1925

The writers of options and buyers of options have equal and opposite payoffs, minus commissions.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643028>

Question 1926

Good capital investment opportunities are most likely to exist when

- A) many firms compete to sell similar products.
- B) interest rates are high and rising.
- C) goods and services can be produced cheaply using readily available tools and technologies.
- D) a line of business is expensive to enter and uses proprietary technology.

Answer: <https://biology-forums.com/index.php?topic=641332>

Question 1927

You have a credit card with a balance of \$18,000. The annual interest rate on the card is 18% compounded monthly, and the minimum payment is \$400 per month. If you pay only the minimum payment each month and do not make any new charges on the card, how many years will it take for you to pay off the \$18,000 balance?

Answer: <https://biology-forums.com/index.php?topic=640884>

Question 1928

Assume that an investor purchased 200,000,000 Japanese yen in New York at an exchange rate of 113 yen to the dollar and simultaneously sold the yen in Tokyo at an exchange rate of 111 Japanese yen to the dollar. Further assume that there was no cost associated with this transaction. What profit or loss did the investor make? Round your answer to the nearest dollar.

- A) \$(3,189) loss
- B) \$31,890
- C) \$(31,890) loss
- D) \$3,189 profit

Answer: <https://biology-forums.com/index.php?topic=642596>

Question 1929

Hoak Company's common stock is currently selling for \$50. Last year's dividend was \$1.83 per share. Investors expect dividends to grow at an annual rate of 9% into the future.

- a. What is Hoak's cost of common equity?
- b. Selling new common stock is expected to decrease the price of the stock by \$5.00. What is the cost of new common stock? Dividends will remain the same.

Answer: <https://biology-forums.com/index.php?topic=641766>

Question 1930

When using MACRS depreciation, after-tax cash flows will generally be higher in the early years and lower in the later years than if straight-line depreciation had been used.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641532>

Question 1931

Which of the following may affect initial investment, interim operating cash flows and terminal cash flows?

- A) changes in sales revenue
- B) depreciation
- C) changes in working capital
- D) changes in interest rates

Answer: <https://biology-forums.com/index.php?topic=641495>

Question 1932

Given the following information, determine the market value of EAO Company bonds.

Par value \$1,000

Coupon rate 10%

Years to maturity 6

Market rate 8%

Interest paid semiannually

Answer: <https://biology-forums.com/index.php?topic=641175>

Question 1933

Enchanted Hearth expects to sell 1,200 wood pellet stoves in 2011 at an average price of \$2,400 each. It believes that unit sales will grow between -5% and +5% per year and prices will rise or fall by as much as 5% per year. Forecast sales revenue for 2013 if both price and the number of units sold increase by 5% per year.

- A) \$3,492,720
- B) \$3,500,658
- C) \$3,333,960
- D) \$3,175,200

Answer: <https://biology-forums.com/index.php?topic=641598>

Question 1934

Which of the following will decrease cumulative borrowing on the cash budget?

- A) A decrease in interest expense
- B) A decrease in collections
- C) An increase in equipment purchases
- D) Both A and B

Answer: <https://biology-forums.com/index.php?topic=642261>

Question 1935

Because installation costs of a new asset are a current cash expense, they are excluded from the initial outlay.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641523>

Question 1936

2015 U.S. Corporate tax rates are shown below:

Taxable Income Marginal Tax Rate

\$0-\$50,000 15%

\$50,001-\$75,000 25%

\$75,001-\$100,000 34%

\$100,001-\$335,000 39%

\$335,001-\$10,000,000 34%

\$10,000,001-\$15,000,000 35%

\$15,000,001-\$18,333,333 38%

Over \$18,333,333 35%

RJH Inc. has earnings before taxes of \$100,000 in 2015. The company's tax expense will be

- A) \$22,250.

- B) \$24,670.
- C) \$25,000.
- D) \$34,000.

Answer: <https://biology-forums.com/index.php?topic=640548>

Question 1937

Which of the following bond types has the greatest risk for investors?

- A) debentures
- B) mortgage bonds
- C) floating rate bonds
- D) subordinated debentures

Answer: <https://biology-forums.com/index.php?topic=641201>

Question 1938

A large agribusiness firm has contracted to deliver 100,000 bushels of wheat for \$4.50 a bushel at the end of October. On the delivery date, the spot price of wheat is \$4.70 per bushel. Which of the following is true?

- A) The seller of the contract has \$20,000 loss.
- B) The buyer of the contract has a \$20,000 loss.
- C) The buyer of the contract has a \$20,000 profit
- D) Both A and C are true

Answer: <https://biology-forums.com/index.php?topic=642898>

Question 1939

M. Camus bought 1000 shares of Oran Co. at \$60 per share and 100 shares of Gitane Co. at \$40 per share. Both stocks are now worth \$50 per share. Both companies have offered to repurchase their shares. If M. Camus would like to have about \$5,000 in cash, should he sell the Oran or Gitane?

- A) Oran, because a tax deduction on the loss will leave him with more than \$5,000 and taxes on the capital gain from Gitane would leave him with less than \$5,000.
- B) Gitane because the price is rising.
- C) He should sell equal amounts of each so that his gains cancel out his losses.
- D) there is no difference, he makes \$5,000 either way.

Answer: <https://biology-forums.com/index.php?topic=642062>

Question 1940

The annual percentage rate on two different investments will equal the effective annual rate on the two investments only if interest on both investments is compounded annually.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640810>

Question 1941

Assume that a firm purchases foreign currency in order to complete the purchase of raw material from an overseas supplier. The currency is purchased today at an exchange rate that is good only for today. This transaction is referred to as a(n) _____ transaction.

- A) forward
- B) arbitrage
- C) spot
- D) hedge

Answer: <https://biology-forums.com/index.php?topic=642630>

Question 1942

The seller of credit default swaps

- A) agrees to exchange payments with another security if interest rates change.
- B) receives payments if the underlying security defaults.
- C) is obliged to make payments if the underlying security defaults.
- D) can only sell them to owners of the underlying security.

Answer: <https://biology-forums.com/index.php?topic=643165>

Question 1943

Pearls, Inc. had sales in 2015 of \$2.1 million. The common stockholders received \$600,000 in cash dividends. Interest totaling \$150,000 was paid on outstanding debts. Operating expenses totaled \$300,000, and cost of goods sold was \$500,000. What is the tax liability of Pearls, Inc.? 2013 U.S. Corporate tax rates are shown below:

Taxable Income Marginal Tax Rate

\$0-\$50,000 15%

\$50,001-\$75,000 25%

\$75,001-\$100,000 34%

\$100,001-\$335,000 39%

\$335,001-\$10,000,000 34%

\$10,000,001-\$15,000,000 35%

\$15,000,001-\$18,333,333 38%

Over \$18,333,333 35%

Answer: <https://biology-forums.com/index.php?topic=640558>

Question 1944

The most commonly used method for making financial forecasts is the percent-of-sales method.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642223>

Question 1945

You are thinking about purchasing 1,000 shares of stock in the following firms:

Number of Shares Firm's Beta

Firm A 100 0.75

Firm B 200 1.47

Firm C 200 0.82

Firm D 600 1.60

If you purchase the number of shares specified, then the beta of your portfolio will be

A) 1.16.

B) 1.35.

C) 1.00.

D) Cannot be determined without knowing the stock prices.

Answer: <https://biology-forums.com/index.php?topic=641082>

Question 1946

A timeline is a linear representation of the timing of cash flows.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640728>

Question 1947

The balance sheet of the Jackson Company is presented below:

Jackson Company Balance Sheet

March 31, 2017

(Millions of Dollars)

Current assets \$12 Accounts payable \$6

Fixed assets 18 Long-term debt 12

Total \$30 Common equity 12

Total \$30

For the year ending March 31, 2017, Jackson had sales of \$35 million. The common stockholders received all net earnings of the firm in the form of cash dividends, leaving no funds from earnings available to the firm for expansion (assume that depreciation expense is just equal to the cost of replacing worn-out assets).

Construct a pro forma balance sheet for March 31, 2018 for an expected level of sales of \$45 million. Assume current assets and accounts payable vary as a percent of sales, and fixed assets remain at the present level. Use notes payable as a source of discretionary financing.

Answer: <https://biology-forums.com/index.php?topic=642231>

Question 1948

Individuals are often savers because they wish to save for such things as retirement, a down payment on a home or graduate school.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640462>

Question 1949

A machine has a cost of \$5,575,000. It will produce cash inflows of \$1,825,000 (Year 1); \$1,775,000 (Year 2); \$1,630,000 (Year 3); \$1,585,000 (Year 4); and \$1,650,000 (Year 5). At a discount rate of 16.25%, the project should be

- A) accepted.
- B) rejected.
- C) discounted at a lower rate.
- D) abandoned after the first year.

Answer: <https://biology-forums.com/index.php?topic=641364>

Question 1950

Which of the following is a characteristic of an efficient market?

- A) Small number of individuals
- B) Opportunities exist for investors to profit from publicly available information.
- C) Security prices reflect fair value of the firm.
- D) Immediate response occurs for new public information.

Answer: <https://biology-forums.com/index.php?topic=640444>

Question 1951

The before-tax cost of this debt issue is

- A) 12%.
- B) 7.92%.
- C) 9.97%.
- D) 13%.

Answer: <https://biology-forums.com/index.php?topic=641726>

Question 1952

Jayden spends a lot of time studying charts of stocks past performance, but his investment return are only average. This outcome supports

- A) the weak-form efficient market hypothesis.
- B) the semi-strong form efficient market hypothesis.
- C) the strong form efficient market hypothesis.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=640978>

Question 1953

Economic exposure refers to the overall impact of exchange rate changes on the value of the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642804>

Question 1954

Marguerite's Florist is considering the purchase of a new delivery van. It will cost \$25,000 plus another \$3,000 to have it painted in the company's characteristic floral motif. The van will be depreciated over 5 years using MACRS percentages and a half year convention. Compute depreciation for the second year in the life of the van.

Answer: <https://biology-forums.com/index.php?topic=641540>

Question 1955

Should you prefer to receive \$100,000 right now or \$10,000 at the end of each of the next 12 years?

- A) \$100,000 now.
- B) \$10,000 at the end of each of the next 12 years.
- C) The answer depends on the time value of money.
- D) Either alternative is equally valuable.

Answer: <https://biology-forums.com/index.php?topic=640723>

Question 1956

The primary objective of all capital budgeting decisions is to increase the size of the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641339>

Question 1957

How much money will be in the account at the end of year 40 (round to the nearest \$1.00)?

- A) \$85,914
- B) \$76,709
- C) \$44,800

D) \$93,000

Answer: <https://biology-forums.com/index.php?topic=640838>

Question 1958

A maker of breakfast cereals has contracted to buy 100,000 bushels of wheat for \$4.50 a bushel at the end of October. On the delivery date, the spot price of wheat is \$4.70 per bushel. Which of the following is true?

- A) The seller of the contract has \$20,000 profit.
- B) The buyer of the contract has a \$20,000 loss.
- C) The buyer of the contract has a \$20,000 profit
- D) Both A and B are true

Answer: <https://biology-forums.com/index.php?topic=642896>

Question 1959

Jean-Marc lives in Besançon, a French city near the Swiss border. The exchange rate is 1.20 Swiss francs to the euro. If Jean-Marc's shopping cart of groceries typically costs him 80 euros, what should it cost him if he drives across the border to Switzerland? Do you think that purchase price parity would apply in this situation?

Answer: <https://biology-forums.com/index.php?topic=642770>

Question 1960

If you place \$50 in a savings account with an interest rate of 7% compounded weekly, what will the investment be worth at the end of five years (round to the nearest dollar)?

- A) \$72
- B) \$70
- C) \$71
- D) \$57

Answer: <https://biology-forums.com/index.php?topic=640742>

Question 1961

The NPV break-even point means that a company has covered its cost of capital.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641657>

Question 1962

An ideal time to buy bonds with distant maturities is when the investor expects future yield curves to be

- A) upward sloping.
- B) downward sloping.
- C) flat.
- D) unstable.

Answer: <https://biology-forums.com/index.php?topic=641140>

Question 1963

In order to determine the value of a share of preferred stock, the discount rate used is the annual dividend percent.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641322>

Question 1964

A company whose rate of return on investments is higher than the interest rate on its debt is said to have

- A) unfavorable financial leverage.
- B) a sub-optimal capital structure.
- C) favorable financial leverage.
- D) negative financial leverage.

Answer: <https://biology-forums.com/index.php?topic=641841>

Question 1965

Broad Cloth, Inc.'s average collection period is 15 days. The vice-president of marketing has projected credit sales of \$2. million for October, \$2.5 million for November and \$3 million for December. Purchases equal 60% of sales and are made one month in advance of budgeted sales. Payments are made 1 month after the date of purchase. Compute payments for purchases for the months of November and December.

Answer: <https://biology-forums.com/index.php?topic=642273>

Question 1966

Welch's Lawn Care products just paid a dividend of \$1.85. This dividend is expected to grow at a constant rate of 3% per year, so the next expected dividend is \$1.90. The stock price is currently \$12.50. . The company's marginal tax rate is 35%. Compute the cost of common equity.

- A) 11.83%
- B) 9.9%
- C) 18.2%
- D) 15.2%

Answer: <https://biology-forums.com/index.php?topic=641731>

Question 1967

Which of the following statements regarding calculating a firm's cost of capital is correct?

- A) The after-tax cost of debt is generally more expensive than the after-tax cost of preferred stock.
- B) Since retained earnings are readily available, the cost of retained earnings is generally lower than the cost of debt.
- C) If a company's beta increases, this will increase the cost of capital.
- D) The level of general economic conditions will determine whether a firm should utilize an arithmetic average cost of capital or a weighted average cost of capital.

Answer: <https://biology-forums.com/index.php?topic=641782>

Question 1968

What is the conventional method for financing permanent levels of accounts receivable and inventory?

- A) Bonds and equity
- B) Short-term loans
- C) Accounts payable and accrued expenses
- D) Equity only

Answer: <https://biology-forums.com/index.php?topic=642320>

Question 1969

Which of the following is included in the terminal cash flow?

- A) The expected salvage value of the asset
- B) Tax impacts from selling assets
- C) Recapture of any working capital
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641491>

Question 1970

Because accounts payable and accrued expenses increase with sales, they represent sources of spontaneous financing.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642228>

Question 1971

According to the domestic Fisher effect, if the inflation rate is 5%, and the nominal rate of interest is 7%, the real rate of interest is

- A) 2.00%.
- B) 1.904%.
- C) 4.65%.
- D) 0.5252%.

Answer: <https://biology-forums.com/index.php?topic=642736>

Question 1972

According to the international Fisher effect, if the nominal interest rate in Russia is 9.5% and the inflation rate is 8%, the real rate of interest is approximately

- A) 18.26%.
- B) 6.5%.
- C) 1.5%.
- D) -1.5%.

Answer: <https://biology-forums.com/index.php?topic=642738>

Question 1973

Financial ratios comprise the principal tool of financial analysis since they can be used to answer a variety of questions regarding a firm's financial

condition.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640690>

Question 1974

Project EH! requires an initial investment of \$50,000, and has a net present value of \$12,000. Project BE requires an initial investment of \$100,000, and has a net present value of \$13,000. The projects are mutually exclusive. The firm should accept

- A) project EH!.
- B) project BE.
- C) both projects.
- D) neither project.

Answer: <https://biology-forums.com/index.php?topic=641361>

Question 1975

Garcia Developers will erect a small office building at a cost of \$4,500,000. They have a client who will lease the space for 5 years at a price that will produce free cash flows of \$150,000 per year. For approximately how much would they need to sell the building for at the end of the 5th year to reach break-even NPV? Garcia uses a discount rate of 10% for projects of this type.

- A) \$3,750,000
- B) \$5,755,936
- C) \$6,331,530
- D) \$6,964,683

Answer: <https://biology-forums.com/index.php?topic=641642>

Question 1976

In 2010, a deep water oil drilling rig owned by British Petroleum exploded in the Gulf of Mexico resulting in the deaths of several crew members, one of the worst ecological disasters in history, and major financial damage to the company. How could the five step corporate risk management process have avoided or mitigated this disaster.

Answer: <https://biology-forums.com/index.php?topic=642856>

Question 1977

- a.) If Sparco, Inc. deposits \$150 at the end of each year for the next eight years in an account that pays 5% interest, how much money will Sparco have at the end of eight years?
- b.) Suppose Sparco decides that they need to have \$5,300 at the end of the eight years. How much will they have to deposit at the end of each year?

Answer: <https://biology-forums.com/index.php?topic=640887>

Question 1978

Unexpected dividend changes would cause investors to reassess their perceptions about a firm's stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642147>

Question 1979

Secondary markets

- A) function as a place for smaller, less well-known firms to issue securities.
- B) are an important vehicle for established firms to raise additional money for expansion.
- C) are a means by which funds are cycled from savers to borrowers.
- D) are concerned with the trading of previously issued securities between investors.

Answer: <https://biology-forums.com/index.php?topic=640460>

Question 1980

If an individual with inside information can make higher than expected profits, the market is no more than semi-strong form efficient.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640984>

Question 1981

The goal of the firm should be the maximization of profit.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640422>

Question 1982

The method of depreciation generally used for tax reporting purposes is

- A) straight line.
- B) sum-of-the-year's digits.
- C) ACRS.
- D) MACRS.

Answer: <https://biology-forums.com/index.php?topic=641506>

Question 1983

Unlike spontaneous sources of financing, discretionary financing requires a managerial decision.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642359>

Question 1984

Evidence that agency costs exists

- A) because they are shown in footnotes to the financial statements.
- B) because stock prices increase when an underperforming CEO is unexpectedly replaced.
- C) because underperforming CEO's are frequently voted out by shareholders.
- D) because management often pursues risky but profitable opportunities rather than safer, less profitable opportunities.

Answer: <https://biology-forums.com/index.php?topic=641236>

Question 1985

When analyzing the cash flows from a new project proposal, a company should always use its marginal tax rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640557>

Question 1986

What is the purpose of using common size balance sheets and common size income statements?

Answer: <https://biology-forums.com/index.php?topic=640601>

Question 1987

Which of the following is a valid issue in implementing the dividend growth model? The model

- A) is too complex to be used to estimate value.
- B) does not require an accurate estimate of the rate of growth in future dividends.
- C) is based upon the assumption that dividends are expected to grow at a constant rate forever.
- D) both A and C.

Answer: <https://biology-forums.com/index.php?topic=641721>

Question 1988

The annual percentage rate (APR) is calculated as

- A) Interest rate per period x compounding periods per year.
- B) $(1 + \text{quoted annual rate} / \text{compounding periods per year})^{\text{compounding periods per year}} - 1$.
- C) Interest rate per period / compounding periods per year.
- D) $1 + \text{quoted annual rate} / \text{compounding periods per year} / 1 / \text{compounding periods per year} - 1$.

Answer: <https://biology-forums.com/index.php?topic=640805>

Question 1989

Uses of future contracts include

- A) reducing uncertainty about the future cost of key inputs.
- B) reducing uncertainty about the prices that will be received when a commodity is ready for market.
- C) speculating on future price movements of commodities which the speculator neither uses nor produces.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642939>

Question 1990

ABC Service can purchase a new assembler for \$15,052 that will provide an annual net cash flow of \$6,000 per year for five years. Calculate the NPV of the assembler if the required rate of return is 12%. (Round your answer to the nearest \$1.)

- A) \$1,056
- B) \$4,568
- C) \$7,621

D) \$6,577

Answer: <https://biology-forums.com/index.php?topic=641344>

Question 1991

Sola Cola Corporation is undertaking a capital budgeting analysis. The rate on 10-year U.S. Treasury bonds is 3.60%, and the return on the S & P 500 index is 11.6%. If the cost of Sola Cola's common equity is 19.6%, calculate their beta.

- A) 1.69
- B) 5.4
- C) 2.0
- D) 1.38

Answer: <https://biology-forums.com/index.php?topic=641732>

Question 1992

Cape Cod Cranberry Products is evaluating the introduction of a new line of juice drinks consisting of cranberry juice blended with sweeter juices such as apple or grape. In the first year the product line is introduced, sales are forecasted at \$2,000,000, Cost of Goods Sold at \$1,200,000, other cash expenses at \$300,000, depreciation expense at \$800,000. The company has many other profitable product lines. It's marginal tax rate is 35%. Compute operating cash flow for the first year.

Answer: <https://biology-forums.com/index.php?topic=641539>

Question 1993

J&P Accounting purchased new tax software two years ago. The software is still useable, but faster, more comprehensive software is available. If J&P purchases the new software, the cost of the old software is

- A) a sunk cost.
- B) an opportunity cost.
- C) a terminal expense.
- D) an overhead expense.

Answer: <https://biology-forums.com/index.php?topic=641463>

Question 1994

How much must you deposit at the end of each of the next 10 years in a savings account paying 5% annually in order to have \$10,000 saved by the end of the 10th year?

- A) \$1,000
- B) \$1,638
- C) \$1,500
- D) \$795

Answer: <https://biology-forums.com/index.php?topic=640854>

Question 1995

If Untel Inc. decides to manufacture a new generation of computer chips with a brief 2 year product life cycle, it expects to sell 1 million units each year. Variable cost per unit will be \$75, fixed costs \$5 million, and depreciation \$3 million. The initial investment will be \$22.91 million. Untel uses a discount rate of 10%; its marginal tax rate is 40%. To reach break-even NPV, UNTEL must sell the chips for at least _____ each.

- A) \$87
- B) \$105
- C) \$100
- D) \$1,000

Answer: <https://biology-forums.com/index.php?topic=641647>

Question 1996

What allows common stockholders the right to cast a number of votes equal to the number of directors being elected?

- A) The majority voting provision
- B) The casting feature
- C) The cumulative voting provision
- D) The proxy method

Answer: <https://biology-forums.com/index.php?topic=641254>

Question 1997

Corbin, Inc. had net income of \$150,000 on sales of \$5,000,000 during 2016. In addition, the firm's total assets were \$2,500,000, and its capital structure is comprised of 40% debt and 60% equity. What was Corbin's return on equity in 2016?

- A) 15%
- B) 2.5%

- C) 10%
 - D) Return on equity cannot be determined with the information provided.
- Answer: <https://biology-forums.com/index.php?topic=640675>

Question 1998

- The Sarbanes-Oxley Act of 2002
- A) protects managers of publicly held corporations from frivolous lawsuits for unethical behavior.
 - B) prohibits managers of publicly held corporations from personally profiting from non-public information.
 - C) holds those who influence corporate decisions legally accountable for unethical conduct.
 - D) allows corporate accountants greater latitude in the application of generally accepted accounting principles.
- Answer: <https://biology-forums.com/index.php?topic=640421>

Question 1999

- Congratulations. You just won the California State Lottery. The amount awarded is paid in 20 equal annual installments, at the beginning of each year. You can invest your money at 6.6%, compounded annually. You have calculated that the lottery is worth \$20,975,400 today. How much was the amount awarded?
- A) \$75,310,294
 - B) \$36,000,000
 - C) \$81,047,770
 - D) \$42,000,000
- Answer: <https://biology-forums.com/index.php?topic=640862>

Question 2000

- Betty Gilmore plans to sell berry pies at a local farmer's market. The permit and space rental will cost her \$2,000 for the June through August season. The pies will sell for \$7.00. Ingredients and overhead average \$4.00 per pie. She also has to pay five percent of her gross sales to the markets's organizers. How many pies will she need to sell to cover her fixed costs?
- A) 755 pies with a very small profit on the last pie.
 - B) 667 pies with a very small profit on the last pie.
 - C) 301 pies
 - D) She can never break even.
- Answer: <https://biology-forums.com/index.php?topic=641628>

Question 2001

- Wolf Den Craft Beers projects that it will need \$50 million in total assets to meet the sales projection of \$65 million. The pro forma balance sheet shows accounts payable, \$8 million, accrued expenses, \$2 million, long-term debt, \$10 million and equity, \$25 million. If Wolf Den decides to meet discretionary financing needs with 5 year notes payable, how much will it need to borrow?
- A) \$10 million
 - B) \$0, the firm will have excess funds
 - C) \$5 million.
 - D) Cannot be calculated without knowing the net profit margin.
- Answer: <https://biology-forums.com/index.php?topic=642204>

Question 2002

- Stock that is repurchased by the issuing company is called
- A) paid in capital.
 - B) treasury stock.
 - C) retained capital.
 - D) par value stock.
- Answer: <https://biology-forums.com/index.php?topic=640510>

Question 2003

- Firms that wish to raise funds for investment purposes issue securities in the
- A) primary and secondary markets.
 - B) primary markets.
 - C) secondary markets.
 - D) intermediary markets.
- Answer: <https://biology-forums.com/index.php?topic=640459>

Question 2004

- Which of the following reasons causes investors to require a lower rate of return on the firm's bonds than on its stock?

- A) Bondholders bear less risk than common stockholders bear.
- B) Bondholders have prior voting rights over common stockholders.
- C) Bondholders receive greater returns than common stockholders.
- D) Investors pay a lower tax rate on bond interest

Answer: <https://biology-forums.com/index.php?topic=641691>

Question 2005

What is the NPV of the project if first year savings are only \$75,000 and the project is not sold?

- A) (\$4,545)
- B) (\$15,691)
- C) \$15,691
- D) \$75,000

Answer: <https://biology-forums.com/index.php?topic=641667>

Question 2006

Due to the strengthening of the stock market over the past 50 years, stock splits and stock dividends are more common than cash dividends. True / False?

Answer: <https://biology-forums.com/index.php?topic=642011>

Question 2007

Managers avoid cutting dividends even in response to short-term fluctuations in earnings.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642007>

Question 2008

Piercing Publishers recently issued preferred stock with a fixed annual dividend of \$3.00 per share. Investors require a 5% return on similar preferred stock issues. The stock is currently selling for \$65. Is the stock a good buy?

- A) Yes, as it is undervalued \$5.
- B) Yes, as it is undervalued \$10.
- C) No, as it is overvalued \$5.
- D) No, as it is overvalued \$10.

Answer: <https://biology-forums.com/index.php?topic=641303>

Question 2009

Warchester Inc. is considering the purchase of copying equipment that will require an initial investment of \$15,000 and \$4,000 per year in annual operating costs over the equipment's estimated useful life of 5 years. The company will use a discount rate of 8.5%. What is the equivalent annual cost?

- A) \$7,806.49
- B) \$6,152.51
- C) \$7,000
- D) \$4,000

Answer: <https://biology-forums.com/index.php?topic=641408>

Question 2010

Which investor incurs the greatest risk?

- A) Mortgage bondholder
- B) Preferred stockholder
- C) Common stockholder
- D) Debenture bondholder

Answer: <https://biology-forums.com/index.php?topic=641253>

Question 2011

Fris B. Corporation stock is currently selling for \$42.86. It is expected to pay a dividend of \$3.00 at the end of the year. Dividends are expected to grow at a constant rate of 3% indefinitely. Compute the required rate of return on FBC stock.

- A) 10%
- B) 33%
- C) 7%
- D) 4.3%

Answer: <https://biology-forums.com/index.php?topic=641239>

Question 2012

The percent-of-sales method can be used to forecast

- A) expenses.
- B) assets.
- C) liabilities.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642174>

Question 2013

Profitable companies often prefer to issue debt rather than preferred stock because

- A) debt creates less risk for the company.
- B) interest payments are fixed but preferred shareholders expect dividends to grow.
- C) preferred shares dilute the voting rights of common shareholders but bonds do not.
- D) interest on debt is deductible for tax purposes, but preferred dividends are not.

Answer: <https://biology-forums.com/index.php?topic=641317>

Question 2014

Larger issues of new common stock can cause _____ to increase.

- A) flotation costs
- B) the investor's required rate of return
- C) the stock price
- D) the tax rate

Answer: <https://biology-forums.com/index.php?topic=641814>

Question 2015

Financial futures include

- A) Treasury bond futures, which are the most popular of all futures contracts in terms of contracts issued.
- B) interest rate futures, which have been around the longest.
- C) stock index futures, which allow for either a cash settlement or a stock settlement.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642973>

Question 2016

List and briefly explain at least two important reasons why capital structures tend to differ between industries and even companies within the same industry.

Answer: <https://biology-forums.com/index.php?topic=641906>

Question 2017

Merrimac Brewing company's total assets equal \$18 million. The book value of Merrimac's equity is \$6 million. Excess cash is \$200,000. The market value of Merrimac's equity is \$10 million. It's Debt to Enterprise Value ratio is .5. What is the book value of Merrimac's interest-bearing debt?

- A) \$5 .25million
- B) \$10.2 million
- C) \$15 million
- D) \$20.4 million

Answer: <https://biology-forums.com/index.php?topic=641831>

Question 2018

The Stoney River Textiles Company will borrow \$50 million for 180 days from Merrimac Bank. The bank will charge Stoney River 4.5 % on a discounted basis. What is the annual percentage rate (APR) to Stoney River (round to the nearest .1 percent)?

- A) 2.25%
- B) 2.36%
- C) 4.71%
- D) 4.5%

Answer: <https://biology-forums.com/index.php?topic=642448>

Question 2019

The preparation of a cash budget serves which of the following purposes?

- A) To estimate the amount and timing of cash flows that are needed in order to optimize the price of the firm's common stock

- B) To calculate the amount of future cash flows that would be needed in order to achieve the optimal level of financing during the forecast period
C) To determine the amount and timing of short-term financing that would be required for the operation of a business during the forecast period
D) To estimate the amount of sales volume that would be required in order to achieve the break-even point

Answer: <https://biology-forums.com/index.php?topic=642264>

Question 2020

The dividend policy that states smoothing of the dividend stream in order to minimize the effect of company reversals is called the

- A) increasing-stream hypothesis of dividend policy.
B) stable dividend policy.
C) clientele effect policy.
D) residual payout policy.

Answer: <https://biology-forums.com/index.php?topic=642140>

Question 2021

The time value of money is created by

- A) the existence of profitable investment alternatives and interest rates.
B) the fact that the passing of time increases the value of money.
C) the elimination of the opportunity cost as a consideration.
D) the fact that the value of saving money for tomorrow could be more or less than spending it today.

Answer: <https://biology-forums.com/index.php?topic=640719>

Question 2022

Walmart's current earnings per share of \$4.60 are expected to grow only at a rate of 2% per year for the next few years. Using a P/E ratio of 15, what is a reasonable value for a share of Walmart Stock.

Answer: <https://biology-forums.com/index.php?topic=641291>

Question 2023

A company that foregoes a discount of 1/7 net 30 is essentially borrowing money from the vendor at

- A) 1%.
B) 12.29%.
C) 16.03%.
D) 52.7%.

Answer: <https://biology-forums.com/index.php?topic=642432>

Question 2024

An appropriate tool to analyze the interaction of various value drivers for Orange Electronics would be

- A) simulation.
B) sensitivity analysis.
C) scenario analysis.
D) either A or C.

Answer: <https://biology-forums.com/index.php?topic=641606>

Question 2025

The original form of the Modigliani and Miller Capital Structure Theorem

- A) ignores the effect of taxes.
B) ignores the relationship between firm value and cost of capital.
C) ignores transaction costs.
D) both A and C are true.

Answer: <https://biology-forums.com/index.php?topic=641856>

Question 2026

What is the expected net operating profit after tax (NOPAT) if the most likely estimates are used?

- A) \$493,500
B) \$330,000
C) \$300,000
D) \$124,500

Answer: <https://biology-forums.com/index.php?topic=641604>

Question 2027

General partners have unrestricted transferability of ownership, while limited partners must have the consent of all partners to transfer their ownership.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640398>

Question 2028

Weaknesses of the EBIT-EPS analysis include

- A) that it disregards the implicit costs of debt financing.
- B) that it ignores the effect of the specific financing decision on the firm's cost of common equity capital.
- C) that it considers only the level of the earnings stream and ignores the variability inherent in it.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=641919>

Question 2029

Although discounted cash flow decision techniques have become widely accepted, their use depends to some degree on the size of the project and where within the firm the decision is being made.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641442>

Question 2030

In a general partnership, all partners have unlimited liability for the actions of any one partner when that partner is conducting business for the firm.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640395>

Question 2031

Which of the following statements is true?

- A) A bond that has a rating of AA is considered to be a junk bond.
- B) A bond will sell at a premium if the prevailing required rate of return is less than the bond's coupon rate.
- C) A zero coupon is a bond that is secured by a lien on real property.
- D) The legal document that describes all of the terms and conditions of a bond issue is called a debenture agreement.

Answer: <https://biology-forums.com/index.php?topic=641180>

Question 2032

The trade-off theory of capital structure recognizes the tax-shield benefit of debt financing, but also recognizes that the benefit may at some point be offset by costs associated with financial distress.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641889>

Question 2033

Terminator Bug Company bonds have a 14% coupon rate. Interest is paid semiannually. The bonds have a par value of \$1,000 and will mature 10 years from now. Compute the value of Terminator bonds if investors' required rate of return is 12%.

- A) \$1,114.70
- B) \$1,149.39
- C) \$894.06
- D) \$1,000.00

Answer: <https://biology-forums.com/index.php?topic=641138>

Question 2034

Which of the following does NOT represent cash outflows to the firm?

- A) Taxes
- B) Interest payments
- C) Dividends
- D) Depreciation

Answer: <https://biology-forums.com/index.php?topic=640581>

Question 2035

Assume that a particular firm has a total asset turnover ratio lower than the industry norm. In addition, this firm's current ratio and fixed asset turnover ratio also meet industry standards. Based on this information, we can conclude that this firm must have excessive

- A) current liabilities.

- B) fixed assets.
- C) long-term debt.
- D) current assets.

Answer: <https://biology-forums.com/index.php?topic=640657>

Question 2036

Although CDs are slightly more risky than Treasury bills, the yield is usually slightly less.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642549>

Question 2037

Why do the arithmetic average return and the geometric return differ?

Answer: <https://biology-forums.com/index.php?topic=640976>

Question 2038

As the volatility of a stock's price increases, the value of call and put options on the stock decreases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643173>

Question 2039

Once market inefficiencies become known, they will be exploited by traders until they disappear.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640986>

Question 2040

Which of the following statements about bonds is true?

- A) The market value of a bond moves in the opposite direction of market interest rates.
- B) As the maturity date of a bond approaches, the market value of a bond will become more volatile.
- C) Long-term bonds are less risky than short-term bonds.
- D) If market interest rates are higher than a bond's coupon interest rate, then the bond will sell above its par value.
- E) None of the above.

Answer: <https://biology-forums.com/index.php?topic=641187>

Question 2041

Beta is a measurement of the relationship between a security's returns and the general market's returns.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641053>

Question 2042

Capital markets are markets for short term debt instruments maturing in less than one year, and money markets are markets for long term debt instruments maturing in more than one year.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640474>

Question 2043

Abbot Corporation has an average collection period of 49 days, an inventory conversion period of 83 days, and a payables deferrable period of 36 days. What is Abbott's operating cycle?

- A) 96 days
- B) 70 days
- C) 85 days
- D) 132 days

Answer: <https://biology-forums.com/index.php?topic=642395>

Question 2044

A company with a current ratio less than one or negative net working capital would not be able to pay its bills on time.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642306>

Question 2045

Swenson Oil & Gas allows its customers to prepurchase heating oil in June for the coming winter. Customers who took advantage of the offer prepurchased 400,000 gallons of oil at \$3.50 per gallon. Swenson hedged its position by contracting to purchase 400,000 gallons of oil for November delivery at a price of \$3.00 per gallon. If the November spot price is \$3.85 per gallon, Swenson's gross profit on the heating oil sold in June will be

- A) \$100,000.
- B) (\$100,000).
- C) \$200,000.
- D) \$0.00.

Answer: <https://biology-forums.com/index.php?topic=642910>

Question 2046

Why are capital budgeting decisions among the most important decisions made by any company? Give a few examples from recent business developments.

Answer: <https://biology-forums.com/index.php?topic=641340>

Question 2047

A firm will borrow \$1 million for six months on a discount basis. The annual interest rate on the loan is 6%. What is the annual percentage cost of the loan?

- A) 5.64%
- B) 6.38%
- C) 3.19%
- D) 6.00%

Answer: <https://biology-forums.com/index.php?topic=642476>

Question 2048

Successful capital budgeting decisions may serve to deter competition because of the cost of entering new markets.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641337>

Question 2049

The internal rate of return method results in the same accept/reject decision as the net present value (NPV) method but would not necessarily rank mutually exclusive projects the same way.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641422>

Question 2050

Holding all other variables constant, as the dividend payout ratio decreases, the sustainable growth rate increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642219>

Question 2051

What would cause the initial cash outlay of an investment decision to be affected by the sale of an existing asset?

- A) If the investment decision is a replacement decision
- B) If the asset being purchased is technologically superior
- C) If the asset being sold has exceeded its MACR's recovery allowance period
- D) All of the above

Answer: <https://biology-forums.com/index.php?topic=641556>

Question 2052

You wish to purchase a condo at a cost of \$175,000. You are able to make a down payment of \$35,000 and will borrow \$140,000 for 30 years at an interest rate of 7.25%. How much is your monthly payment? To solve this problem with an EXCEL spreadsheet, you would enter

- A) =PMT(7.25/12,360,140000,0,1).
- B) =PMT(.0725/12,360,140000,0,1).
- C) =PMT(7.25,30,140000,0,1) /12.
- D) =PMT(.0725/12,360,175000,0,1).

Answer: <https://biology-forums.com/index.php?topic=640865>

Question 2053

The objective of a prudent financial manager is to eliminate all foreign exchange risk.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642927>

Question 2054

An American option can be exercised only on the expiration date.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643025>

Question 2055

No adjustment is made in the cost of preferred stock for taxes since preferred stock dividends are not tax-deductible.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641755>

Question 2056

What is meant by spontaneous financing?

Answer: <https://biology-forums.com/index.php?topic=642229>

Question 2057

Convertible bonds can be exchanged for the issuing firm's common stock at a price specified at the time of issue.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641209>

Question 2058

Conservative balance sheets may be advantageous for companies that have long-term relationships with their customers.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641903>

Question 2059

Banner's projected retained earnings for 2018 are

- A) \$260,000.
- B) \$280,000.
- C) \$340,000.
- D) \$350,000.

Answer: <https://biology-forums.com/index.php?topic=642211>

Question 2060

Greenspan Inc. discounts cash flows at a nominal rate of 10%. Inflation over the next few years is expected to average 3%. Which of the following would be a correct adjustment for inflation when computing net present value?

- A) Discount cash flows at 10%; increase revenues and expenses by 3% each year.
- B) Discount cash flows at 13%; increase revenues and expenses by 3% each year.
- C) Discount cash flows at 7%; ignore inflation when forecasting revenues and expenses.
- D) Either A or C would be acceptable.

Answer: <https://biology-forums.com/index.php?topic=641545>

Question 2061

Which of the following sequences is arranged in the correct order, from highest long-term returns to lowest?

- A) International equities, U.S. government bonds, U.S. equities
- B) Corporate bonds, treasury bills, international equities
- C) International equities, U.S. government bonds, treasury bills
- D) Government bonds, emerging market equities, treasury bills

Answer: <https://biology-forums.com/index.php?topic=640949>

Question 2062

Short-term debt is frequently less expensive because it provides the borrower more security.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642375>

Question 2063

Each of the following is true of Mutual Funds EXCEPT

- A) Funds can be classified as load or no-load funds.
- B) Mutual Fund shares must be bought from or sold to the Fund by investors.
- C) An index fund is the fund with the highest expenses payable by investors.
- D) The NAV is the total value of stock held by the fund divided by the number of outstanding shares in the mutual fund.

Answer: <https://biology-forums.com/index.php?topic=640467>

Question 2064

A project's internal rate of return and the company's required rate of return were both exactly 12%, therefore the project's NPV was greater than \$0.00. True / False?

Answer: <https://biology-forums.com/index.php?topic=641655>

Question 2065

Which of the following is always a non-cash expense?

- A) Income taxes
- B) Salaries
- C) Depreciation
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=642240>

Question 2066

A commercial bank will loan you \$17,500 for two years to buy a car. The loan must be repaid in 24 equal monthly payments. The annual interest rate on the loan is 6% of the unpaid balance. What is the amount of the monthly payments?

- A) \$1,394.98
- B) \$688.11
- C) \$3779.39
- D) \$775.61

Answer: <https://biology-forums.com/index.php?topic=640814>

Question 2067

Banks often index interest rates on short-term operating loans to

- A) LIBOR.
- B) the S&P 500.
- C) the inflation rate.
- D) the 6 month Treasury Bill.

Answer: <https://biology-forums.com/index.php?topic=641105>

Question 2068

On a common size income statement, EBIT is equal to 100%.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640599>

Question 2069

What is the expected net operating profit after tax (NOPAT) for the best case scenario?

- A) \$493,500
- B) \$330,000
- C) \$394,500
- D) \$124,500

Answer: <https://biology-forums.com/index.php?topic=641605>

Question 2070

Which of the following is NOT one of the categories for a project's relevant after-tax cash flows?

- A) Financing flows
- B) Initial cash outflow
- C) Differential flows over the project's life
- D) Terminal cash flow

Answer: <https://biology-forums.com/index.php?topic=641446>

Question 2071

The after-tax cost of debt is

- A) 6.20%.
- B) 5.40%.
- C) 4.60%.
- D) 3.80%.

Answer: <https://biology-forums.com/index.php?topic=641749>

Question 2072

Tanzlin Manufacturing's common stock has a beta of 1.5. If the expected risk-free return is 2% and the expected return on the market is 14%, what is the expected return on the stock?

- A) 13.5%
- B) 21.0%
- C) 16.8%
- D) 20.0%

Answer: <https://biology-forums.com/index.php?topic=641070>

Question 2073

A discretionary form of financing would be

- A) notes payable.
- B) accounts payable.
- C) accrued expenses.
- D) none of the above.

Answer: <https://biology-forums.com/index.php?topic=642194>

Question 2074

Bull Gator Industries is considering a new assembly line costing \$6,000,000. The assembly line will be fully depreciated by the simplified straight line method over its 5 year depreciable life. Operating costs of the new machine are expected to be \$1,100,000 per year. The existing assembly line has 5 years remaining before it will be fully depreciated and has a book value of \$3,000,000. If sold today the company would receive \$2,400,000 for the existing machine. Annual operating costs on the existing machine are \$2,100,000 per year. Bull Gator is in the 46 percent marginal tax bracket and has a required rate of return of 12 percent.

- a. Calculate the net present value of replacing the existing machine.
- b. Explain the impact on NPV of the following:
 - i. Required rate of return increases
 - ii. Operating costs of new machine are increased
 - iii. Existing machine sold for less

Answer: <https://biology-forums.com/index.php?topic=641567>

Question 2075

Consider the timing of the profits of the following certain investment projects:

Profit
L S

Year 1 \$ 0 \$ 3000

Year 2 \$ 3000 \$ 0

- A) Project S is preferred to Project L.
- B) Project L is preferred to Project S.
- C) Projects S and L are equally desirable.
- D) A goal of profit maximization would favor Project S only.

Answer: <https://biology-forums.com/index.php?topic=640432>

Question 2076

Given the following annual net cash flows, determine the IRR to the nearest whole percent of a project with an initial outlay of \$1,800.

Year Net Cash Flow

1 \$1,000

2 \$750

3 \$500

- A) 14%
- B) 12%
- C) 8%

D) 25%

Answer: <https://biology-forums.com/index.php?topic=641381>

Question 2077

The forward rate is the same as the spot rate that will prevail in the future.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642686>

Question 2078

Which of the following would result from payment of the stock dividend?

- A) Total equity would remain at \$50,000,000.
- B) Total equity would increase to \$57,500,000.
- C) Total equity would decrease to \$43,478,261.
- D) The effect on the equity account would depend on the market's reaction to the dividend.

Answer: <https://biology-forums.com/index.php?topic=641973>

Question 2079

Common size financial statements represent all figures on the financial statements

- A) in inflation adjusted dollars from a base year.
- B) as if all companies being compared had the same total revenue.
- C) as if all companies being compared had the same total assets.
- D) as a percentage of either sales or total assets.

Answer: <https://biology-forums.com/index.php?topic=640595>

Question 2080

Bender and Co. is issuing a \$1,000 par value bond that pays 9% interest annually. Investors are expected to pay \$918 for the 10-year bond. What is the after-tax cost of debt if the firm is in the 34% tax bracket?

- A) 6.83%
- B) 9.00%
- C) 10.35%
- D) 15.68%

Answer: <https://biology-forums.com/index.php?topic=641723>

Question 2081

In a limited partnership, at least one general partner must remain in the association; the privilege of limited liability still applies to this partner.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640405>

Question 2082

Which of the following will decrease discretionary funds needed?

- A) An increase in projected accounts receivable
- B) An increase in projected accounts payable
- C) An increase in projected dividends
- D) Both A and C

Answer: <https://biology-forums.com/index.php?topic=642202>

Question 2083

Which of the following is a typical capital budgeting decision?

- A) Purchase of office supplies
- B) Granting credit to a new customer
- C) Replacement of manufacturing equipment with more modern and efficient equipment
- D) Financing the firm with more long-term debt and less equity

Answer: <https://biology-forums.com/index.php?topic=641331>

Question 2084

Which of the following is a real option with respect to a capital budgeting decision?

- A) A call option on the company's stock.
- B) A put option on securities sold to finance the project.
- C) An option to expand the scale of the project.

D) An option to purchase land that will be used for a manufacturing facility.

Answer: <https://biology-forums.com/index.php?topic=641661>

Question 2085

Project H requires an initial investment of \$100,000 and produces annual cash flows of \$50,000, \$40,000, and \$30,000. Project T requires an initial investment of \$100,000 and produces annual cash flows of \$30,000, \$40,000, and \$50,000. The projects are mutually exclusive. The company accepts projects with payback periods of 3 years or less.

- A) Project H will be accepted.
- B) Project T will be accepted.
- C) H and T will both be accepted.
- D) Neither projected will be accepted.

Answer: <https://biology-forums.com/index.php?topic=641391>

Question 2086

Which of the following statements is true?

- A) Systematic, or market, risk can be reduced through diversification.
- B) Both systematic and unsystematic risk can be reduced through diversification.
- C) Unsystematic, or company, risk can be reduced through diversification.
- D) Neither systematic nor unsystematic risk can be reduced through diversification.

Answer: <https://biology-forums.com/index.php?topic=641048>

Question 2087

A basis point is equal to one hundredth of a percentage point.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641153>

Question 2088

A(n) _____ gives the holder the right to sell a stated number of shares at a specified price for a limited time.

- A) stock index futures contract
- B) put option
- C) call option
- D) interest rate futures contract

Answer: <https://biology-forums.com/index.php?topic=642949>

Question 2089

The principle of maturity matching suggests that

- A) machinery with a 5 year economic life be financed with debt that will be paid off in five years or less.
- B) seasonal peaks in inventory be financed with traded credit.
- C) the minimum level of current assets required for the firm's year around operations be financed with permanent sources.
- D) all of the above.

Answer: <https://biology-forums.com/index.php?topic=642340>

Question 2090

You are considering the stock of two firms to add to your portfolio. The companies differ only with respect to their dividend policies. For both firms, investors expect EPS for each of the next two years to be \$7 and dividends and ending price for each of the next two periods to be:

D1 D2 P2

Firm A \$2 \$2 \$60.70

Firm B 4 4 56.42

The required rate of return for the stock of Firm A is 14%. Ignore taxes or transaction fees.

- a. How much would investors pay for the stock of Firm A?
- b. How much would investors pay for the stock of Firm B?
- c. For a less-than-perfect world, provide an argument for each of the following:
 - (1) Investors prefer the dividend policy of Firm A.
 - (2) Investors prefer the dividend policy of Firm B.
 - (3) Firms prefer the dividend policy of Firm A.

Answer: <https://biology-forums.com/index.php?topic=642117>

Question 2091

Which of the following is NOT part of the five step corporate risk management process?

- A) Identify and understand the firm's major risks

- B) Accept projects only if the NPV of the worst case scenario is positive.
- C) Monitor and manage the risks the firm assumes
- D) Decide how much risk to assume.

Answer: <https://biology-forums.com/index.php?topic=642834>

Question 2092

The spot exchange rate for the Thai bhat is 33.135 bhat to the dollar. The Host Hotel Company will be able to repatriate profits from its luxury resort hotel in Phuket in 5 years. It has estimated the 5 year forward rate at 38 bhat to the dollar. The risk-free rate in the U.S. is 4% and Host uses an 11 % risk premium for investments of this type. If the expected accumulated profits after 5 years are 100 million bhat, what is their present value in U.S. dollars.

Answer: <https://biology-forums.com/index.php?topic=642818>

Question 2093

Common size balance sheets represent all figures on the balance sheet

- A) as a percentage change from the previous year.
- B) percentages of the current year's sales.
- C) as a percentage of peer group sales.
- D) as a percentage of total assets.

Answer: <https://biology-forums.com/index.php?topic=640597>

Question 2094

Which of the following factors is most important in investment decisions?

- A) The change in earnings before taxes.
- B) The change in gross sales revenue.
- C) The change in net income.
- D) The change in after-tax cash flow.

Answer: <https://biology-forums.com/index.php?topic=640445>

Question 2095

A(n) _____ is used to outline the issuing company's contractual obligations to bondholders.

- A) mortgage
- B) debenture
- C) bond rating
- D) indenture

Answer: <https://biology-forums.com/index.php?topic=641108>

Question 2096

Using a financial calculator, which of the following would be a correct way to find how long it would take for a sum to triple at a rate of 3%?

- A) $i=5$, $PV=-1$, $PMT=0$, $FV=3$, solve for N
- B) $i=5$, $PV=1$, $PMT=0$, $FV=3$, solve for N
- C) $i=.05$, $PV=-1$, $PMT=0$, $FV=3$, solve for N
- D) Financial calculators cannot be used to solve this problem.

Answer: <https://biology-forums.com/index.php?topic=640786>

Question 2097

Gina Dare, who wants to be a millionaire, plans to retire at the end of 40 years. Gina's plan is to invest her money by depositing into an IRA at the end of every year. What is the amount that she needs to deposit annually in order to accumulate \$1,000,000? Assume that the account will earn an annual rate of 11.5%. Round off to the nearest \$1.

- A) \$1,497
- B) \$5,281
- C) \$75
- D) \$3,622

Answer: <https://biology-forums.com/index.php?topic=640818>

Question 2098

KDP's most recent dividend was \$2.00 per share and is selling today in the market for \$70. The dividend is expected to grow at a rate of 7% per year for the foreseeable future. If the market return is 10% on investments with comparable risk, should you purchase the stock?

- A) No, because the stock is overpriced \$1.33.
- B) No, because the stock is overpriced \$3.33.
- C) Yes, because the stock is underpriced \$1.33.

D) Yes, because the stock is underpriced \$3.33.

Answer: <https://biology-forums.com/index.php?topic=641248>

Question 2099

An increase in _____ would increase net working capital.

- A) plant and equipment
- B) accounts payable
- C) accounts receivable
- D) both B and C

Answer: <https://biology-forums.com/index.php?topic=642277>

Question 2100

On balance sheets, long-term capital leases are treated as

- A) debt.
- B) equity.
- C) contingent liabilities.
- D) as "off balance sheet" financing.

Answer: <https://biology-forums.com/index.php?topic=641929>

Question 2101

Clark Corporation has an average collection period of 7 days, an inventory conversion period of 30 days, and a payables deferrable period of 60 days. What is Clark's operating cycle?

- A) 97 days
- B) 37 days
- C) 23 days
- D) -23 days

Answer: <https://biology-forums.com/index.php?topic=642397>

Question 2102

Which of the following is generally used to measure the market when calculating betas?

- A) The Dow Jones Industrial Average
- B) The Standard & Poors 500 Index
- C) The Value Line Quantam Index
- D) The Case Schiller Housing Index

Answer: <https://biology-forums.com/index.php?topic=641050>

Question 2103

Firm B's risk premium is

- A) 2.66%.
- B) 4.8%.
- C) 6.3%.
- D) 8.1%.

Answer: <https://biology-forums.com/index.php?topic=641085>

Question 2104

Insurance companies have a great deal of money to invest because

- A) their profit margins are so high.
- B) because they are reluctant to cover insurable losses.
- C) because they must hold large reserves to pay potential claims.
- D) insurance do not actually have large sums to invest.

Answer: <https://biology-forums.com/index.php?topic=640468>

Question 2105

The Blackburn Group has recently issued 20-year, unsecured bonds rated BB by Moody's. These bonds yield 443 basis points above the U.S. Treasury yield of 2.76%. The yield to maturity on these bonds is

- A) 4.43%.
- B) 7.19%
- C) 12.23%
- D) mortgage bonds.

Answer: <https://biology-forums.com/index.php?topic=641123>

Question 2106

What is the expected rate of return on a bond that matures in seven years, has a par value of \$1,000, a coupon rate of 14%, and is currently selling for \$911? Assume annual coupon payments.

- A) 7.81%
- B) 15.36%
- C) 15.61%
- D) 16.22%

Answer: <https://biology-forums.com/index.php?topic=641130>

Question 2107

The present value of a future sum of money increases as the number of years before the payment is received increases.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640799>

Question 2108

What is meant by discretionary financing?

Answer: <https://biology-forums.com/index.php?topic=642230>

Question 2109

Which of the following is a reasonable conclusion from the Tradeoff theory of capital structure?

- A) A high debt ratio will result in a maximum price of a firm's common stock.
- B) A firm's common stock price will not be affected by the amount of debt a firm uses.
- C) A low debt ratio will result in a maximum price for a firm's common stock.
- D) Modest levels of debt have a more favorable impact on a firm's average cost of capital and stock price than no debt.

Answer: <https://biology-forums.com/index.php?topic=641864>

Question 2110

The holder of a non-amortizing bonds

- A) receives no periodic interest payments.
- B) receives the full par value of the bond when it matures.
- C) receives shares of common stock rather than cash interest payments.
- D) receives periodic payments that consist of both interest and principal.

Answer: <https://biology-forums.com/index.php?topic=641202>

Question 2111

Tremont Inc.'s Total Assets = \$25 million. The balance sheet shows Accounts payable and accruals totaling \$7 million, common stock and retained earnings total \$10 million. There is no preferred stock. What is the book value of interest bearing debt?

- A) \$15 million
- B) \$7 million
- C) \$18 million
- D) \$8 million

Answer: <https://biology-forums.com/index.php?topic=641837>

Question 2112

Why is it important to perform risk analysis before accepting or rejecting major projects?

Answer: <https://biology-forums.com/index.php?topic=641583>

Question 2113

Major differences between a cash budget and a pro forma income statement include

- A) The cash budget includes payments and collections that will not occur until the following period.
- B) The emphasis is on cash collections for sales and cash payments for expenses.
- C) The cash budget includes some items that do not appear on the income statement such as dividend payments.
- D) Both B and C.

Answer: <https://biology-forums.com/index.php?topic=642238>

Question 2114

Explain the significance of each of the following:

- a. announcement date

- b. ex-dividend date
- c. record date
- d. payment date

Answer: <https://biology-forums.com/index.php?topic=642021>

Question 2115

Discuss the basic functions that budgets perform for a firm.

Answer: <https://biology-forums.com/index.php?topic=642170>

Question 2116

The treasurer for Brookdale Clothing must decide how much money the company needs to borrow in July. The balance sheet for June 30, 2014 is presented below:

Brookdale Clothing Balance Sheet

June 30, 2014

Cash \$75,000 Accounts payable \$400,000

Marketable securities 100,000 Long-term debt 300,000

Accounts receivable 300,000 Common stock 100,000

Inventory 250,000 Retained earnings 200,000

Total current assets 725,000 Total liabilities and

Fixed assets 275,000 stockholder's equity \$1,000,000

Total assets \$1,000,000

The company expects sales of \$250,000 for July. The company has observed that 25% of its sales is for cash and that the remaining 75% is collected in the following month. The company plans to purchase \$400,000 of new clothing. Usually 40% of purchases is for cash and the remaining 60% of purchases is paid in the following month. Salaries are \$100,000 per month, lease payments are \$50,000 per month, and depreciation charges are \$20,000 per month. The company plans to purchase a new building for \$200,000 in July and sell its marketable securities for \$100,000. If the company must maintain a minimum cash balance of \$50,000, how much money must the company borrow in July?

Answer: <https://biology-forums.com/index.php?topic=642275>

Question 2117

A & K Co. expects to have earnings before taxes of \$250,000 to \$300,000. The company's marginal tax rate is 39% and its average tax rate about 33%. For every additional dollar of interest expense, A & K's taxes will

- A) increase by 39 cents.
- B) fall by 39 cents.
- C) be unaffected.
- D) fall by about 33 cents.

Answer: <https://biology-forums.com/index.php?topic=640550>

Question 2118

You have been asked to analyze a capital investment proposal. The project's cost is \$2,775,000. Cash inflows are projected to be \$925,000 in Year 1; \$1,000,000 in Year 2; \$1,000,000 in Year 3; \$1,000,000 in Year 4; and \$1,225,000 in Year 5. Assume that your firm discounts capital projects at 15.5%. What is the project's MIRR?

- A) 12.62%
- B) 10.44%
- C) 16.73%
- D) 19.99%

Answer: <https://biology-forums.com/index.php?topic=641412>

Question 2119

When repaying an amortized loan, the interest payments increase over time.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640876>

Question 2120

Many corporate finance professionals favor the CAPM for determining the cost of equity. Which of the following is a reason for this preference?

- A) The data is less expensive.
- B) The variables in the model that apply to public corporations are readily available from public sources.
- C) Because the CAPM gives better treatment to flotation costs.
- D) The CAPM uses data from the firm's financial statements.

Answer: <https://biology-forums.com/index.php?topic=641739>

Question 2121

Which of the following is consistent with the original formulation of the Modigliani and Miller Capital Structure Theorem?

- A) A firm's weighted average cost of capital decreases as financial leverage is used.
- B) A firm's common stock price falls as financial leverage is used.
- C) A firm's weighted average cost of capital and common stock price are unaffected by the amount of financial leverage used by the firm.
- D) A firm's weighted average cost of capital increases as operating leverage is used.

Answer: <https://biology-forums.com/index.php?topic=641865>

Question 2122

Less risky investments have lower standard deviations than do more risky investments.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640957>

Question 2123

Adequate portfolio diversification can be achieved by investing in several companies in the same industry.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641007>

Question 2124

Transactions carried out in the foreign exchange markets include

- A) spot transactions.
- B) forward exchange contracts which allow the exchange of one currency for another today.
- C) Depositary Receipts
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=642598>

Question 2125

Green Corp.'s preferred stock is selling for \$20.83. If the company pays \$2.50 annual dividends, what is the expected rate of return on its stock?

- A) 8.33%
- B) 12.00%
- C) 2.50%
- D) 20.00%

Answer: <https://biology-forums.com/index.php?topic=641294>

Question 2126

A(n) _____ can be exercised only on the expiration date.

- A) European option
- B) at-the-money option
- C) short option
- D) American option

Answer: <https://biology-forums.com/index.php?topic=642955>

Question 2127

Banking regulations are essentially the same in all developed nations.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640479>

Question 2128

Foregoing the earning potential of a dollar today is referred to as the

- A) time value of money.
- B) opportunity cost concept.
- C) risk/return tradeoff.
- D) creation of wealth.

Answer: <https://biology-forums.com/index.php?topic=640442>

Question 2129

Which of the following is the formula for compound value?

- A) $FV_n = P(1 + i)^n$

- B) $FV_n = (1 + i)/P$
C) $FV_n = P/(1 + i)^n$
D) $FV_n = P(1 + i)^{-n}$

Answer: <https://biology-forums.com/index.php?topic=640736>

Question 2130

Which of the following formulas is appropriate to find the value of preferred stock with a fixed dividend?

- A) Value of preferred stock = Annual Preferred Stock Dividend $(1 + \text{growth rate}) / \text{Market's Required Yield on Preferred Stock}$
B) Value of preferred stock = Annual Preferred Stock Dividend $(1 + \text{growth rate}) / \text{Market's Required Yield on Preferred Stock} - \text{growth rate}$
C) Value of preferred stock = Annual Preferred Stock Dividend / Market's Required Yield on Preferred Stock
D) Value of preferred stock = Annual Preferred Stock Dividend / Investor's Required Yield on Preferred Stock

Answer: <https://biology-forums.com/index.php?topic=641313>

Question 2131

U. S. Treasury bills can be used to approximate the risk-free rate.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641087>

Question 2132

You are considering buying some stock in Continental Grain. Which of the following is an example of nondiversifiable risk?

- A) Risk resulting from a general decline in the stock market
B) Risk resulting from a news release that several of Continental's grain silos were tainted
C) Risk resulting from an explosion in a grain elevator owned by Continental
D) Risk resulting from an impending lawsuit against Continental

Answer: <https://biology-forums.com/index.php?topic=640991>

Question 2133

The higher the investor's required rate of return, the higher the P/E ratio will be.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641290>

Question 2134

Project H requires an initial investment of \$100,000 and produces annual cash flows of \$45,000 per year for each of the next 3 years. Project T also requires an initial investment of \$100,000 and produces cash flows of \$30,000 in year 1, \$40,000 in year 2, and \$70,000 in year 3. If the discount rate is 10% and the projects are not mutually exclusive

- A) Project H should be chosen.
B) Project T should be chosen.
C) H and T are equally attractive.
D) Both projects should be accepted.

Answer: <https://biology-forums.com/index.php?topic=641350>

Question 2135

Fibercom Inc. needs \$500,000 for one year. If the loan takes the form of a discounted note at a stated rate of 4%, how much will Fibercom actually need to borrow?

- A) \$480,000
B) \$500,000
C) \$520,833
D) \$520,000

Answer: <https://biology-forums.com/index.php?topic=642452>

Question 2136

When a commercial bank extends short-term credit to a firm, it can provide a line of credit that involves

- A) a legal obligation on the part of the bank to provide the stated credit.
B) no legal obligation on the part of the bank to provide the stated credit.
C) the requirement that the borrower maintain a compensating balance with the bank throughout the loan period.
D) a fixed rate of interest.

Answer: <https://biology-forums.com/index.php?topic=642470>

Question 2137

Each year, shareholders receive a dividend equal to the firm's net earnings divided by the number of shares of common stock.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640497>

Question 2138

Newbury Inc. has retained \$2 million in earnings this year. It can borrow up to \$1.5 million at a rate of 8% and sell the same amount of new stock at a cost of 17%. Newbury's cost of common equity without selling any new stock is 16%. If Newbury's capital budget is \$2.5 million, pecking order theory says management will use

- A) \$1.5 million in debt and \$1 million in retained earnings.
- B) \$2 million in retained earnings and \$0.5 million in debt.
- C) \$833,333 each from retained earnings, new debt and new stock.
- D) \$1.5 million in debt and \$1 million in new stock.

Answer: <https://biology-forums.com/index.php?topic=641880>

Question 2139

Foreign exchange transactions carried out in the spot market entails an agreement today to deliver a specific number of units of currency on a future date in return for a specified number of units of another currency.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642676>

Question 2140

The Oviedo Thespians are planning to present performances of their Florida Revue on 2 consecutive nights in January. It will cost them \$5,000 per night for theater rental, event insurance and professional musicians. The theater will also take 10% of gross ticket sales. How many tickets must they sell at \$10.00 per ticket to break even?

- A) 1000 tickets
- B) 1,112 tickets
- C) 1,223 tickets
- D) There is not enough information

Answer: <https://biology-forums.com/index.php?topic=641627>

Question 2141

Cassel Corp. bonds pay an annual coupon rate of 10%. If investors' required rate of return is now 8% on these bonds, they will be priced at

- A) par value.
- B) a premium to par value.
- C) a discount to par value.
- D) cannot be determined from information given.

Answer: <https://biology-forums.com/index.php?topic=641179>

Question 2142

Banner's projected current assets for 2018 are

- A) \$1,000,000.
- B) \$1,120,000.
- C) \$1,500,000.
- D) \$1,260,000.

Answer: <https://biology-forums.com/index.php?topic=642206>

Question 2143

The investor's required rate of return differs from the firm's cost of capital due to the

- A) firm's beta.
- B) tax deductibility of interest.
- C) CAPM.
- D) time value of money.

Answer: <https://biology-forums.com/index.php?topic=641685>

Question 2144

Sacramento Light & Power issued preferred stock in 1998 that had a par value of \$85. The preferred stock pays a dividend of 5.75%. Investors require a rate of return of 6.50% today on this stock. What is the value of the preferred stock today? Round to the nearest \$1.

- A) \$100
- B) \$85
- C) \$75

D) \$16

Answer: <https://biology-forums.com/index.php?topic=641295>

Question 2145

The return for the market during the next period is expected to be 11.5%; the risk-free rate is 2.5%. Calculate the required rate of return for a stock with a beta of 1.5.

Answer: <https://biology-forums.com/index.php?topic=641096>

Question 2146

In order to maximize firm value, management should invest in new assets when cash flows from the assets are discounted at the firm's _____ and result in a positive NPV.

- A) cost of capital
- B) cost of debt used to finance the project
- C) rate of return on equity
- D) internal rate of return

Answer: <https://biology-forums.com/index.php?topic=641684>

Question 2147

The optimal corporate risk management strategy is to

- A) avoid or transfer every possible risk.
- B) do nothing to transfer risk.
- C) transfer about half the risk.
- D) there is no strategy that is optimal for all firms.

Answer: <https://biology-forums.com/index.php?topic=642838>

Question 2148

In most instances, as the amount of debt rises, the common stockholders will decrease their required rate of return.

True / False?

Answer: <https://biology-forums.com/index.php?topic=641787>

Question 2149

National Grit's preferred stock has a par value of \$100, sells for \$85 and pays \$11 each year in dividends. What is the required rate of return?

- A) 12.9 %
- B) 11%
- C) 1.29%
- D) 8.5%

Answer: <https://biology-forums.com/index.php?topic=641311>

Question 2150

Lines of credit involve fixed rates of interest.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642495>

Question 2151

Which of the following should determine whether or not the firm should purchase insurance from an outside party?

- A) Only the frequency of incidents
- B) The cost of the policy and the expected losses
- C) Only the maximum size of incidents
- D) Only the firms normal cash reserves

Answer: <https://biology-forums.com/index.php?topic=642872>

Question 2152

An investor purchased Canadian dollars at an exchange rate of \$0.756 U.S. to the Canadian dollar. The Canadian dollars cost her \$1,000,000 (U.S. dollars). How many Canadian dollars did she buy?

- A) \$132,275
- B) \$756,000
- C) \$1,322,751
- D) \$75,600

Answer: <https://biology-forums.com/index.php?topic=642594>

Question 2153

The writer of an option keeps the option premium regardless of whether or not the option is ever exercised.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643017>

Question 2154

Bipolar Beverages total assets equal \$360 million. The book value of Bipolar's equity is \$180 million. The market value of Bipolar's equity is \$ 250 million. The book value of the company's interest bearing debt is \$120 million. Compute Bipolar's Debt Ratio and Debt to Value Ratio.

Answer: <https://biology-forums.com/index.php?topic=641851>

Question 2155

The primary markets sell only stocks and bonds issued by major corporations while the secondary markets sell securities issued by newer and smaller companies.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640504>

Question 2156

Cornucopia's liabilities and equity are shown below:

Accounts Payable \$500,000

Accrued Expenses 250,000

Short-term Note at 5% 300,000

Long-Term Debt 1,250,000

Common Equity, Book Value 2,500,000

Common Equity, Market Value 6,000,000

Cornucopia's debt to enterprise value ratio is _____. Excess cash is negligible.

A) .48

B) .32

C) .21

D) .30

Answer: <https://biology-forums.com/index.php?topic=641834>

Question 2157

Arbitrage is the process of buying and selling in one market in order to make a riskless profit.

True / False?

Answer: <https://biology-forums.com/index.php?topic=642666>

Question 2158

Describe the differences between secured and unsecured short-term credit.

Answer: <https://biology-forums.com/index.php?topic=642503>

Question 2159

Middletown, USA currently has a population of 1.5 million people. It has been one of the fastest growing cities in the nation, growing by an average of 4% per year for the last five years. If this city's population continues to grow at 4% per year, what will the population be 10 years from now?

A) 1,560,000

B) 2,220,366

C) 2,100,000

D) 1,824,979

Answer: <https://biology-forums.com/index.php?topic=640755>

Question 2160

Ratios are used to standardize financial information.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640692>

Question 2161

_____ gives minority shareholders more power to elect a member to the board of directors.

A) Preemptive right

B) Majority voting

- C) Proxy fights
- D) Cumulative voting

Answer: <https://biology-forums.com/index.php?topic=641232>

Question 2162

When faced with a surplus of cash, most firms should stretch their trade accounts.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642541>

Question 2163

Describe the tax benefits to a corporation of issuing debt rather than issuing stock.

Answer: <https://biology-forums.com/index.php?topic=640506>

Question 2164

A reverse stock split, 1 for 10 for example, should result in a higher price per share.
True / False?

Answer: <https://biology-forums.com/index.php?topic=642005>

Question 2165

A company collects 60% of its sales during the month of the sale, 30% one month after the sale, and 10% two months after the sale. The company expects sales of \$10,000 in August, \$20,000 in September, \$30,000 in October, and \$40,000 in November. How much money is expected to be collected in October?

- A) \$25,000
- B) \$15,000
- C) \$35,000
- D) None of the above

Answer: <https://biology-forums.com/index.php?topic=642241>

Question 2166

Another term for the self-liquidating debt principle is

- A) sinking fund debt.
- B) declining principal loans.
- C) maturity matching.
- D) debt that is secured by the asset purchased.

Answer: <https://biology-forums.com/index.php?topic=642337>

Question 2167

Hudson Valley Distributors wants to be sure it has 10,000 cases of Beaujolais Nouveau to sell next November. In January, they enter into an agreement to buy the wine at a price of 34.62 euro to the case. Payment will be due at the end of November. They expect to sell the wine to restaurants and retailers for \$63 per case. Hudson Valley has hedged its foreign exchange risk by entering into a forward contract to purchase euros in November at \$1.30/euro. If the spot exchange rate at the end of November is \$1.25/euro, the payoff to Hudson Valley for hedging is

- A) \$13,315.
- B) \$17,310.
- C) (\$17,310).
- D) (\$500).

Answer: <https://biology-forums.com/index.php?topic=642915>

Question 2168

There is absolutely no difference on an economic basis between a stock dividend and a stock split.
True / False?

Answer: <https://biology-forums.com/index.php?topic=641993>

Question 2169

Diamond Inc. has estimated that a new building will cost \$2,500,000 to construct. Land was purchased a year ago for \$500,000 and could be sold today for \$550,000. An environmental impact study required by the state was performed at a cost of \$48,000. For capital budgeting purposes, what is the relevant cost of the new building?

- A) \$2,500,000
- B) \$3,048,000
- C) \$3,050,000

D) \$3,098,000

Answer: <https://biology-forums.com/index.php?topic=641484>

Question 2170

The percentage of common stock in Spencer's weighted average cost of capital is

A) 62.5%.

B) 66.7%.

C) 6.25%.

D) 31.25%.

Answer: <https://biology-forums.com/index.php?topic=641702>

Question 2171

An increase in future value can be caused by

A) an increase in the: annual interest rate.

B) an increase in the: number of compounding periods.

C) deferring the original investment by one or more periods.

D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=640739>

Question 2172

If the federal income tax rate were increased, the impact of the tax increase on acceptable investment proposals would be to (ignore the impact of the tax change on the cost of capital)

A) decrease the tax shelter from depreciation.

B) decrease net present value but the internal rate of return would stay the same.

C) increase net present value because the tax shelter from interest and depreciation becomes more valuable.

D) decrease both net present value. and internal rate of return.

Answer: <https://biology-forums.com/index.php?topic=641487>

Question 2173

DNATECH has developed a hair growth treatment at a cost of \$10 million. They can license the technology to another company for a period of 10 years. What is the minimum annual free cash flow they could accept in order to reach break-even NPV on this product? Use a discount rate of 8%.

A) \$1,490,295

B) \$1,639,324

C) \$1,108,000

D) \$1,000,000

Answer: <https://biology-forums.com/index.php?topic=641643>

Question 2174

Which of the following are usually known with a high level of confidence at the beginning of a project?

A) The number of units that will be sold.

B) The price per unit that will result in the desired number of units sold.

C) Tax rates and depreciation rates.

D) None of the above.

Answer: <https://biology-forums.com/index.php?topic=641571>

Question 2175

Immediately after the stock split, an investor who owned 100 share before the split will own

A) 100 shares worth a total of \$4200.

B) 200 shares worth a total of \$8400.

C) 200 shares worth a total of \$16,800.

D) 200 shares with a par value of \$8.00 each.

Answer: <https://biology-forums.com/index.php?topic=641985>

Question 2176

Over the period 1995-2015, the risk-return relationship appears to be

A) negative.

B) perfectly positive.

C) random.

D) generally positive, but not perfect.

Answer: <https://biology-forums.com/index.php?topic=640952>

Question 2177

MI has a \$1,000 par value, 30-year bond outstanding that was issued 20 years ago at an annual coupon rate of 10%, paid semiannually. Market interest rates on similar bonds are 7%. Calculate the bond's price.

- A) \$956.42
- B) \$1,000.00
- C) \$1,168.31
- D) \$1,213.19

Answer: <https://biology-forums.com/index.php?topic=641127>

Question 2178

Changes in the general economy, such as changes in interest rates or tax laws, represent what type of risk?

- A) Firm-specific risk
- B) Market risk
- C) Unsystematic risk
- D) Diversifiable risk

Answer: <https://biology-forums.com/index.php?topic=641037>

Question 2179

Distinguish between revenue enhancement investments, cost-reduction investments, and mandated investments.

Answer: <https://biology-forums.com/index.php?topic=641341>

Question 2180

You have borrowed \$70,000 to buy a sports car. You plan to make monthly payments over a 15-year period. The bank has offered you a 9% interest rate compounded monthly. Calculate the total amount of interest dollars you will pay the bank over the life of the loan. Round to the nearest dollar and assume end-of-month payments.

- A) \$47,451
- B) \$51,644
- C) \$54,776
- D) \$57,798

Answer: <https://biology-forums.com/index.php?topic=640851>

Question 2181

Interest rates have increased by 50 basis points (0.5%). Which of the following bonds will decline most in price? All of the bonds have AA ratings.

- A) A bond that matures in 10 days
- B) A bond that matures in 5 years
- C) A bond that matures in 10 years.
- D) All of the bonds will decline in price by approximately the same amount.

Answer: <https://biology-forums.com/index.php?topic=641182>

Question 2182

Tinker Tools, Inc. is considering a project with the following cash flows. Calculate the MIRR of the project assuming a reinvestment rate of 8%.

Year Cash Flows
0 (\$70,000)
1 (\$55,000)
2 \$40,000
3 \$60,000
4 \$100,000

Answer: <https://biology-forums.com/index.php?topic=641431>

Question 2183

Colin, a private individual, sold one thousand shares of stock in DEF Corporation to Colleen, also a private individual. This represents a secondary market transaction.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640492>

Question 2184

What is the expected rate of return on a portfolio 18% of which is invested in an S&P 500 Index fund, 65% in a technology fund, and 17% in Treasury Bills. The expected rate of return is 11% on the S&P Index fund, 14% on the technology fund and 2% on the Treasury Bills.

- A) 10.25%
- B) 8.33%
- C) 11.42%
- D) 9.00%

Answer: <https://biology-forums.com/index.php?topic=640998>

Question 2185

If you want to have \$875 in 32 months, how much money must you put in a savings account today? Assume that the savings account pays 16% and it is compounded monthly (round to the nearest \$10).

- A) \$630
- B) \$570
- C) \$650
- D) \$660

Answer: <https://biology-forums.com/index.php?topic=640782>

Question 2186

Consider the following cash flows:

Date Cash Received Amount of Cash

- 1/1/17 \$100
- 1/1/18 \$100
- 1/1/19 \$500
- 1/1/20 \$100

What is the value on 1/1/16 of the above cash flows? Use an 8% discount rate, and round your answer to the nearest \$1.00.

- A) \$649
- B) \$601
- C) \$740
- D) \$800

Answer: <https://biology-forums.com/index.php?topic=640905>

Question 2187

Lindsey Insurance Co. has current sales of \$10 million and predicts next year's sales will grow to \$14 million. Current assets are \$3 million and fixed assets are \$4 million. The firm's net profit margin is 7% after taxes. Presently, Lindsey has \$900,000 in accounts payable, \$1.1 million in long-term debt, and \$5 million (including \$2.5 million in retained earnings) in common equity. Next year, Lindsey projects that current assets will rise in direct proportion to the forecasted sales, and that fixed assets will rise by \$500,000. Lindsey also plans to pay dividends of \$400,000 to common shareholders.

- a. What are Lindsey's total financing needs for the upcoming year?
- b. Given the above information, what are Lindsey's discretionary financing needs?

Answer: <https://biology-forums.com/index.php?topic=642234>

Question 2188

S.M., Inc. had total sales of \$400,000 in 2014 (70 percent of its sales are credit). The company's gross profit margin is 10%, its ending inventory is \$80,000, and its accounts receivable is \$25,000. What amount of funds can be generated by the company if it increases its inventory turnover ratio to 10.0 and reduces its average collection period to 20 days?

Answer: <https://biology-forums.com/index.php?topic=640699>

Question 2189

What is the advantage, if any, to using MACRS rather than straight line depreciation?

Answer: <https://biology-forums.com/index.php?topic=641541>

Question 2190

The owner of a credit default swap benefits if the underlying security, such as a mortgage loan, defaults.

True / False?

Answer: <https://biology-forums.com/index.php?topic=643177>

Question 2191

Which of the following circumstances is likely to motivate a firm to repurchase some of its stock?

- A) Management believes that the stock's market price is below its intrinsic value.
- B) The firm has excess cash.
- C) Institutional investors prefer stock repurchases to cash dividends.
- D) All of the above.

Answer: <https://biology-forums.com/index.php?topic=642128>

Question 2192

If we invest money for 10 years at 8% interest, compounded semi-annually, we are really investing money for 20 six-month periods, during which we receive 4% interest each period.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640766>

Question 2193

An optimal capital structure is achieved

- A) when a firm's expected profits are maximized.
- B) when a firm's expected EPS are maximized.
- C) when a firm's break-even point is achieved.
- D) when a firm's weighted average cost of capital is minimized.

Answer: <https://biology-forums.com/index.php?topic=641858>

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