

### Question 1

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 2

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 3

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 4

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 5

\_\_\_\_\_ 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 6

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 7

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 8

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 9

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 10

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 11

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 12

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 13

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 14

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 15

The purpose of financial markets is to bring borrowers and savers together.

True / False?

Answer: <https://biology-forums.com/index.php?topic=640463>

### Question 16

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 17

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 18

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 19

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 20

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>