Mark the correct answer or fill in the answer sheet at the end

1. Which of the following statements best represents what finance is about?
2. How political, social, and economic forces affect corporations
3. Maximizing profits
4. Creation and maintenance of economic wealth
5. Reducing risk
6. Which of the following is not an advantage of the sole proprietorship?
7. Limited liability
8. No time limit imposed on its existence
9. No legal requirements for starting the business
10. None of the above
11. Which of the following would be included in the calculation of net operating working capital?
12. Accounts payable
13. Accruals
14. Fixed Assets
15. Both a and b
16. All of the above
17. Free cash flow will increase with a decrease in \_\_\_\_\_\_\_\_\_\_.
18. tax rate
19. accruals
20. depreciation expense
21. both a and c
22. 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%

1. Which of the following is not a limitation related to the usage of ratios when reviewing a firm’s performance?

a. Many firms experience seasonality in their operations.

b. Ratios cannot be used to compare firms that are in the same industry if one firm’s sales are higher than another firm’s.

c. Some firms operate in a variety of business lines, which makes it difficult to make comparisons.

d. Accounting practices differ widely among firms.

1. 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

1. Use the following information to Answer the questions. 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.

1. 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%.

a. $1,870

b. $2,090

c. $2,117

d. $3,243

**10**. Which of the following statements is false?

a. Quarterly compounding has a higher annual percentage yield than monthly compounding.

b. On monthly compounding loans, the annual percentage yield will be less than the nominal or quoted rate of interest.

c. Compounding essentially means earning interest on interest on an initial balance.

d. Perpetuities pay an equal payment forever.

 **11.** The IRR is:

 a. the discount rate that makes the NPV positive.

 b. the discount rate that equates the present value of the cash inflows with the cost of the project.

 c. the discount rate that makes the NPV negative and the profitability index greater than one.

 d. the rate of return that makes the NPV positive.

1. Which of the following is NOTa criticism of the payback period criteria?

a. Time value of money is not accounted for.

 b.Returns occurring after the payback are ignored.

c. It deals with accounting profits as opposed to cash flows.

d. Both a & c

1. Which of the following is NOT true concerning NPV method of evaluating projects?

 a. Time value of money is not accounted for.

 b. It is difficult to understand for the average person.

 c. It does not address a payback period.

 d. Both a & c

1. 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. $16.5

 d. $17.0

 e. $17.5

1. Which of the following is NOT used to calculate the cost of debt?

 a. Maturity value of the debt

 b. Market price of the debt

 c. Number of years to maturity

 d. Risk-free rate

**16.** The cost of newly issued common stock is greater than the cost of retained earnings due to:

 a. flotation costs.

 b. taxes.

 c. higher risk.

1. both a and c.
2. all of the above.
3. As fixed costs increase, \_\_\_\_\_\_\_\_\_\_\_ increases.

 a. degree of operating leverage

 b. degree of financial leverage

 c. earnings per share

 d. leverage

1. Fixed costs include all of the following EXCEPT:

 a. administrative salaries.

 b. property taxes.

 c. sales commissions.

 d. insurance.

1. Which two ratios would be most helpful in managing a firm’s capital structure?

 a. Balance sheet leverage ratios and profitability ratios

 b. Leverage ratios and coverage ratios

 c. Coverage ratios and liquidity ratios

 d. Coverage ratios and profitability ratios

1. The net income approach to valuation relates to what theory on capital structure?

 a. The independence theory

 b. The moderate position theory

 c. The dependence theory

 d. The capital accumulation theory

1. The focus of current asset management is on:

 a. property, plant, and equipment acquisition.

 b. cash, accounts receivable, and inventory levels.

 c. investments in marketable securities.

1. both a and c.
2. all of the above.
3. 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.

1. all of the above.
2. A company is technically insolvent when:

a. cash outflows in a given period are greater than cash inflows.

b. earnings before interest payments are less than the interest payments.

c. it lacks the necessary liquidity to promptly pay its current debt obligations.

d. the current ratio is less than 1.0.

**24.** The preauthorized check system is used often by:

 a. automobile dealers.

 b. insurance companies.

 c. jewelers.

 d. appliance stores

 **25.** Determining how low inventory should be depleted before it is reordered is called the:

 a. order point problem.

 b.economic order quality.

 c.stockout minimization issue.

 d.ordering cost dilemma.

1. An aging schedule of accounts receivable aids the financial manager in determining the:

a. amount of receivables that are past due.

b. average age of the customers.

c. receivables turnover.

d. average length of the discount period.

1. Elimination of all foreign exchange risk:

a. should be the objective of a prudent financial manager.

b. should be analyzed on a cost benefit basis.

c. is possible through diversification.

d. both a and c.

e. all of the above.

**28.** \_\_\_\_\_\_\_\_\_ risk is generally considered only a paper gain or loss.

 a. Transaction

 b. Translation

 c. Economic

 d. Financial

**29.** Which of the following types of merger is most likely to foster diversification benefits?

 a. A horizontal merger

 b. A vertical merger

 c. A conglomerate merger

 d. A pooling of interests merger

**30.** Which of the following is an example of a horizontal merger?

 a. A merger between Intel and Target

 b. A merger between McDonalds and Tyson Chicken

 c. A merger between Coca-Cola and General Electric

 d. A merger between Chrysler and Daimler-Benz

# Answer Sheet

1 16

2 17

3 18

4 19

5 20

6 21

7 22

8 23

9 24

10 25

11 26

12 27

13 28

14 29

15 30