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FINAL EXAM

Course # 771003
Accountant's Guide to Financial Management

based on the electronic .pdf file(s):

Accountant's Guide to Financial Management
by: Dr. Jae K. Shim, Ph.D., 2009, 288 pages

18 CPE Credit Hours
Financial Planning

This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.

Chapter 1 - An Overview of Financial Management

1. Objectives of managerial finance do not include:
   - ______ Employee profits
   - ______ Stockholders wealth maximization
   - ______ Profit maximization
   - ______ Social responsibility

2. Stockholder wealth maximization advantages do not include:
   - ______ Emphasizes the long term
   - ______ Maximizes short-term profits
   - ______ Recognizes risk or uncertainty
   - ______ Recognizes the timing of returns

3. Which one of the following is not a policy decision that by itself is likely to affect the value of the firm?
   - ______ Investment in a project with a large net present value.
   - ______ Promotion of more aggressive and creative accounting practices
   - ______ Sale of a risky division that will now increase the credit rating of the entire company.
   - ______ Use of a more highly leveraged capital structure that resulted in lower cost of capital.

4. Financial managers do all except:
   - ______ Financial analysis and planning
   - ______ Making investment decisions
   - ______ Making financial and capital structure decisions
   - ______ Posting payroll deductions

5. In capital markets, the primary market is concerned with the provision of new funds for capital investme
   - ______ New issues of bond and stock securities.
   - ______ Exchanges of existing bond and stock securities.
   - ______ The sale of forward or future commodities contracts.
   - ______ New issues of bond and stock securities and exchanges of existing bond and stock securiti

6. Which of the following is not considered a financial institution?
   - ______ Commercial banks

______ Money markets

______ Pension funds

______ Credit unions

7. The basic financial statements include a

______ Balance sheet, income statement, statement of changes in retained earnings.

______ Statement of financial position, income statement, and statement of changes in retained e

______ Balance sheet, statement of financial position, income statement, and statement of change

______ Balance sheet, income statement, statement of cash flows, and statement of retained earr

8. The primary purpose of the balance sheet is to reflect

______ The fair value of the firm's assets at some moment in time.

______ The status of the firm's assets in case of forced liquidation of the firm.

______ The firm's potential for growth in stock values in the stock market.

______ Assets, liabilities, and equity (net worth).

9. A statement of cash flows is to be presented in general purpose external financial statements by which o

______ Publicly held business enterprises only.

______ Privately held business enterprises only.

______ All business enterprises.

______ All business enterprises and not-for-profit organizations.

10. A statement of cash flows is intended to help users of financial statements

______ Evaluation a firm's liquidity, solvency, and financial flexibility.

______ Evaluate a firm's economic resources and obligations.

______ Determine a firm's components of income from operations.

______ Determine whether insiders have sold or purchased the firm's stock.

11. A financial statement includes all of the following items: net income, depreciation, operating activities, a

______ Balance sheet.

______ Income statement.

______ Statement of cash flows.

______ Statement of shareholders' equity.

12. Footnote disclosures usually do not include:

______ Accounting methods

______ Statement of changes in stockholders' equity

______ Inventory pricing

______ Pension fund

13. A segment is reportable if any one of the following conditions exist except:

______ Revenue is 10% or more of total corporate revenue

______ Operating profit is 10% or more of total corporate operating profit

______ Identifiable assets are 10% or more of total corporate assets

______ Foreign operations provide 3%or more of total corporate sales

14. The Section 404 of the Sarbanes-Oxley Act requires ___ additional reports on the effectiveness of intern

    ______ 2

    ______ 3

    ______ 1

    ______ 4

15. Management is required to stare whether or not the company's internal control over financial reporting

    ______ True

    ______ False

16. Factors that an investor considers in evaluating a firm’s stock include all except:

    ______ Financial health

    ______ Industry factors

    ______ Number of future investors

    ______ Future outlook of the company

17. Which of the following is an example of leverage ratios?

    ______ Times interest earned

    ______ Quick ratio

    ______ Payout ratio

    ______ Return on equity

18. Which of the following is not a source of industry statistics?

    ______ Annual Statement Studies

    ______ The FTC Quarterly Report

    ______ Value Line

    ______ Standard and Poor's Industry Surveys

19. Which of the following is an example of liquidity ratios?

    ______ Times interest earned

    ______ Quick ratio

    ______ Return on equity

    ______ P/E ratio

20. If the debt ratio is 0.5 what is the debt-equity ratio?

    ______ 0.5

______ 1

______ 1.5

______ 2

21. Given the following data: Sales = 2000; Cost of good sold = 1500; Average receivables = 100, calculat

______ 24.33

______ 18.25

______ 137

______ 50

22. Gross profit margin is

______ Gross profits divided by net sales

______ Net sales divided by gross profit

______ Sales multiplied by gross profit

______ Average assets multiplied by gross profits

23. Free cash flow (FCF) is cash flow from operations minus cash used to purchase fixed assets minus ____

______ Cash dividends

______ Stock dividends

______ Share repurchase

______ Debt

24. Market value added (MVA) is ____________________ minus equity capital supplied by shareholders.

______ Economic value added

______ Market value

______ Price-earnings ratio (multiple)

______ Book value per share

25. Which of the following is not true regarding the ROI breakdown, known as the Du Pont formula?

______ The importance of turnover as a key to overall return on investment is emphasized in the

______ Turnover is not as important as profit margin in enhancing overall return.

______ The importance of sales is explicitly recognized.

______ The margin and turnover complement each other. In other words, a low turnover can be

26. Return on Investment (ROI) can be enhanced by management:

______ Improving margin

______ Improving turnover

______ Improving both turnover and margin

______ Improving liquidity

27. Margins may be increased by all except:

______ Reducing expenses

______ Reducing turnover

______ Raising selling prices

______ Increasing sales faster than expenses

28. Another version of the Du Pont formula, called the modified Du Pont formula, reflects the effect of using

______ Operating leverage

______ Total leverage

______ Financial leverage

______ Times interest earned

29. The equity multiplier is not equal to:

______ Total assets/ Stockholders' equity

______ Total assets/ Total liabilities

______ 1/1-Total liabilities/Total assets

______ 1/1-Debt ratio

30. Basic steps in projecting financial needs by percent of sales method include all except:

______ Project the firm's sales

______ Project expenses

______ Estimate rate of return

______ Estimate level in current and fixed assets

31. Major steps in preparing the budget do not include:

______ Prepare a sales forecast

______ Formulate present value

______ Estimate manufacturing costs and operating expenses

______ Determine cash flow and other financial effects

32. The most direct way to prepare a cash budget for a manufacturing firm is to include

______ Projected sales, credit terms, and net income.

______ Projected net income, depreciation, and goodwill amortization.

______ Projected purchases, percentages of purchases paid, and net income.

______ Projected sales and purchases, percentages of collections, and terms of payments.

33. The concept of "The Time value of Money" refers to:

______ A dollar has the same value now as in the future

______ A dollar in the past had less value than now

______ A dollar now is worth more than a dollar to be received later

______ A dollar value is constant in time

34. The annuity is defined as a series of payments or receipts:

- ______ Of a variable amount for a definite period
- ______ Of a variable amount for an indefinite period
- ______ Of a fixed amount for an indefinite period
- ______ Of a fixed amount for a specific number of periods

35. Present value of $110,000 expected to be received one year from today at an interest rate (discount ra

- ______ 121000
- ______ 100000
- ______ 110000
- ______ 909000

36. The minimum rate of return is also called:

- ______ Internal rate of return
- ______ Rate of return
- ______ Cost of capital
- ______ Time-adjusted rate of return

37. The return of an investment consists of the following sources of income except:

- ______ Current income
- ______ Preferred return
- ______ Appreciation or depreciation
- ______ Capital gains or losses

38. The Capital Asset Pricing Model (CAPM) computes the expected return on a security by adding the risk-free rate of return to the incremental yield of the expected market return, which is adjusted by the com

- ______ 0.14
- ______ 0.122
- ______ 0.072
- ______ 0.12

39. Beta does not measure the following

- ______ Systematic risk
- ______ Purchasing power risk
- ______ Market risks
- ______ Diversifiable risk

40. The arbitrage pricing theory (APT) explains asset returns in terms of multiple macroeconomic factors. As term government bonds. The market return or risk premium (RPi) and the sensitivity or beta coefficient

- ______ 0.136
- ______ 0.103
- ______ 0.083

- [ ] 0.05

41. What is the risk and the risk-return trade-off:
    - [ ] The lesser the risk, the greater the return expected
    - [ ] The greater the risk, the greater the return expected
    - [ ] The greater the investment, the lesser the risk expected
    - [ ] The greater the investment, the greater the return expected

42. The valuation process for a bond does not require knowledge of:
    - [ ] Amount and timing of cash flows to be received by investor
    - [ ] Present bond price
    - [ ] Maturity date of the bond
    - [ ] Investor’s required rate of return

43. Preferred stock is like common stock except that:
    - [ ] It represents equity ownership
    - [ ] It offers control of the firm
    - [ ] It pays dividends
    - [ ] It provides for prior claims on earnings and assets

44. Which of the following is directly applied in determining the value of a stock when using the dividend gr
    - [ ] The firm’s capital structure.
    - [ ] The firm’s cash flows.
    - [ ] The firm’s liquidity.
    - [ ] The investor’s required rate of return on the firm’s stock.

45. Assume that nominal interest rates just increased substantially but that the expected future dividends f
    - [ ] Increase.
    - [ ] Decrease.
    - [ ] Stay constant.
    - [ ] Change, but in no obvious direction.

46. The market value of a firm’s outstanding common shares will be higher, everything else equal, if
    - [ ] Investors have a lower required return on equity.
    - [ ] Investors expect lower dividend growth.
    - [ ] Investors have longer expected holding periods.
    - [ ] Investors have shorter expected holding periods

47. Determine the cost of equity capital for a firm with a stock price of $50.00, an estimated dividend at th
    - [ ] 0.211
    - [ ] 0.11

|______ 0.1

|______ 0.2

48. If the before-tax cost of debt is 10% and the corporate tax rate is 30%, calculate the after-tax cost of c

|______ 0.1

|______ 0.03

|______ 0.07

|______ 0.13

49. The cost of common equity for a firm is

|______ The required rate of return on the company's stock

|______ The yield to maturity on the bond

|______ The risk-free rate

|______ The market risk premium

50. In computing the overall cost of capital, ______________________ cannot be used as the weights

|______ Historical

|______ Target

|______ Marginal

|______ Projected

51. The capital budget is a(n)

|______ Plan to insure that there are sufficient funds available for the operating needs of the com

|______ Exercise that sets the long-range goals of the company including the consideration of the company including the con

|______ Plan that coordinates and communicates a company's plan for the coming year to all dep

|______ Plan that assesses the long-term needs of the company for plant and equipment purchas

52. In order to grow companies, make all but one of the following investment decisions

|______ Keep or sell a business segment

|______ Lease or buy

|______ Decrease turnover

|______ Which asset to invest in

53. Conditions under which mutually exclusive investments create contrary rankings include all except:

|______ Projects that have different life expectancies

|______ Projects that have different sizes of investment

|______ The cost of capital gives a close approximation for the market rate of return

|______ One project increases in cost while another decreases in time

54. The easiest and most popular method of calculating depreciation is:

|______ Straight-line method

- ______ Sum-of-the-years digit method
- ______ Double-declining-balance method
- ______ Modified accelerated cost recovery system

55. Leverage is that portion of fixed costs which:
    - ______ Represents a risk to the firm
    - ______ Represents a risk to the investors
    - ______ Represents a risk to the clients
    - ______ Represents all of the above

56. A firm's optimal capital structure
    - ______ Minimizes the firm's liquidity.
    - ______ Minimizes the firm's overall cost of capital.
    - ______ Minimizes the firm's return.
    - ______ Maximizes the firm's degree of operating leverage.

57. A company has unit sales of 300,000, the unit variable cost is $1.50, the unit sales price is $2.00, and
    - ______ 1.875
    - ______ 1.5
    - ______ 1.25
    - ______ 1.2

58. Capital structures decisions are influenced by all except:
    - ______ Growth rate and stability of future sales
    - ______ Asset makeup of the individual firm
    - ______ Control status of market forces
    - ______ The business risk to which the firm is exposed

59. Working capital is the difference between
    - ______ Current assets and current liabilities.
    - ______ Fixed assets and fixed liabilities,
    - ______ Total assets and total liabilities.
    - ______ Shareholders' investment and cash.

60. During the year, Mason Company's current assets increased by $120, current liabilities decreased by $5
    - ______ Increased by $70.
    - ______ Did not change.
    - ______ Decreased by $170.
    - ______ Increased by $170.

61. A change in credit policy has caused an increase in sales an increase in discounts taken, a reduction in t

|______ Net profit has increased.

|______ The average collection period has decreased.

|______ Gross profit has declined.

|______ The size of the discount offered has decreased.

62. Types of delays in processing checks include all except

|______ Mail float.

|______ Processing float.

|______ Deposit collection float.

|______ Credit float.

63. A working capital technique that increases the payable float and therefore delays the outflow of cash is

|______ Concentration banking.

|______ A draft.

|______ Electronic Data Interchange (EDI).

|______ A lockbox system

64. Ardmore Industries is in the process of reviewing its inventory and production policies. The company ofter

|______ Linear programming.

|______ Regression analysis.

|______ Economic order quantity (EOQ) or production quantity analysis.

|______ Contribution margin analysis

65. A decrease in inventory order costs will

|______ Decrease the economic order quantity.

|______ Increase the reorder point.

|______ Have no effect on the economic order quantity.

|______ Decrease the carrying cost percentage.

66. The economic order quantity (EOQ) formula assumes that

|______ Purchase costs per unit differ because of quantity discounts.

|______ Costs of placing an order vary with quantity ordered.

|______ Periodic demand for the good is known.

|______ Erratic usage rates are cushioned by safety stocks.

67. The ABC Inventory Control Method

|______ Segregate merchandise into components based on quantity

|______ Compute annual dollar usage by grade

|______ Rank inventory in terms of dollar usage

|______ Works just like JIT.

68. The credit instrument known as a banker's acceptance

- ______ Calls for immediate payment upon delivery of the shipping documents to the bank's custo
- ______ Involves an invoice being signed by the banker upon receipt of goods, after which both t
- ______ Is a time draft payable on a specified date and guaranteed by the bank.
- ______ Is a method of sales financing in which the bank retains title to the goods until the buyer

69. Short-term financial decisions are:

- ______ Less important than long-term financial decisions
- ______ Conceptually, more difficult to make than long-term financial decision
- ______ Easier to make than long-term financial decisions
- ______ Necessary for capital budgeting decisions

70. The most common way to finance a temporary cash deficit is the use of:

- ______ Banker's acceptances
- ______ Call options
- ______ Commercial paper
- ______ Unsecured bank loans

71. In general, it is more expensive for a company to finance with equity capital than with debt capital beca

- ______ Long-term bonds have a maturity date and must therefore be repaid in the future.
- ______ Investors are exposed to greater risk with equity capital.
- ______ Equity capital is in greater demand than debt capital.
- ______ Dividends fluctuate to a greater extent than interest rates.

72. Zero-coupon bonds

- ______ Sell for a small fraction of their face value because their yield is much lower than the mar
- ______ Increase in value each year as they approach maturity, providing the owner with the tota
- ______ Are redeemable in measures of a commodity such as barrels of oil, tons of coal, or ounce
- ______ Are high-interest-rate, high-risk, unsecured bonds that have been used extensively to fir

73. An advantage of issuing new securities to the public is

- ______ Stock prices accurately reflect the true net worth of the company.
- ______ Pressure is applied from outside shareholders for earnings growth.
- ______ The liquidity of the firm's stock increases.
- ______ Self-dealing by corporate insiders is limited.

74. The date when the right to a dividend expires is called the

- ______ Declaration date.
- ______ Ex-dividend date.
- ______ Date of record.
- ______ Payment date.

75. An equity issue sold to the firm's existing stockholders is called:

- ______ A rights offer
- ______ A general cash offer
- ______ A private placement
- ______ A discriminatory-price auction

76. Mirage Corporation has 1,000,000 shares outstanding. It wishes to issue 250,000 new shares using rig

- ______ 1 right/share
- ______ 2 rights/share
- ______ 3 rights/share
- ______ 4 rights/share

77. A potential investor may obtain information about a firm making a new securities issue from which of th

- ______ Registration statement sent by its broker.
- ______ Prospectus.
- ______ Letter of comment.
- ______ Regulation A filing.

78. All of the following are examples of services normally offered by investment bankers except

- ______ Securities sales.
- ______ Consultation on the offering price.
- ______ Underwriting.
- ______ Checking accounts to corporations.

79. In what way do investment bankers make money under best efforts offerings?

- ______ By receiving the difference between the purchasing price and the offering price.
- ______ By receiving a commission.
- ______ By receiving a discount of the difference between the purchasing price and the offering pr
- ______ By purchasing unsold securities for their own account.

80. A sale of securities to a very few parties that is exempt from registration with the SEC is known as a

- ______ Cash offer.
- ______ Rights offer.
- ______ Private placement.
- ______ Shelf registration.

81. The Unique features of financial management of a multinational corporation (MNC) include: Multiple cu

- ______ Internal control problems.
- ______ Translation problems.
- ______ Accounting exposure.
- ______ Operations exposure.

82. Which of the following is not-by definition-a multinational firm?

- ______ A firm with foreign production facilities.
- ______ Firms which only export products or import raw material.
- ______ Foreign joint ventures.
- ______ Acquisition of controlling interest in a foreign company.

83. Exchange rates may be in terms of dollars per foreign currency (direct quote) or units of foreign curren

- ______ Cross rates.
- ______ Indirect quote
- ______ Spot rates.
- ______ Premium quote.

84. A foreign exchange rate is

- ______ The ratio of one country's cost-of-living index to that of another country.
- ______ The price of one country's currency in units of another country's currency.
- ______ The ratio of one country's imports to its exports.
- ______ The difference obtained by subtracting a country's exports from its imports.

85. An indirect quote is when

- ______ The quotation is received indirectly from a foreign correspondent bank.
- ______ The price is in units of foreign currency needed to buy one unit of home currency.
- ______ The price is given as units of home currency per unit of foreign currency.
- ______ The quotation does not apply directly to forward transactions.

86. A "forward" transaction

- ______ Is at a premium over the “spot” rate.
- ______ Means that delivery and payment must be made within one business day (Canada) or tw
- ______ Calls for delivery of a currency at a fixed future date at a fixed rate of exchange.
- ______ Sets the future date when delivery of a currency must be made at an unknown spot exch

87. A direct quote is when

- ______ The quotation is received directly from a foreign correspondent bank.
- ______ The price is in units of foreign currency needed to buy one unit of home currency.
- ______ The price is given as units of home currency per unit of foreign currency.
- ______ The quotation applies directly to forward transactions.

88. Transaction exposure measures changes in the value of outstanding financial obligations

- ______ Incurred after a change in exchange rates.
- ______ Incurred prior to a change in exchange rates.
- ______ Which must determined before operating exposure is established.
- ______ Which must be settled before income tax liability is established.

89. The potential for an increase or decrease in the parent's net worth and reported net income caused by a

- ______ Economic Exposure.
- ______ Operating Exposure.
- ______ Translation Exposure.
- ______ Strategic Exposure.

90. Hedging

- ______ Increases the variability of expected cash flows.
- ______ Increases the variability of reported profits.
- ______ Decreases the variability of expected cash flows.
- ______ Decreases the spread between spot and forward market quotes.

91. All of the following operating strategies are used for the management of transaction exposure except

- ______ Leading and lagging accounts receivable and payable.
- ______ Buying or selling foreign exchange in the forward market.
- ______ Borrowing in foreign currency markets with foreign currency receivables as collateral.
- ______ Substituting debt for equity in a debt/equity swap.

92. The primary method by which a firm may protect itself against operating exposure impacts is

- ______ Money market hedges.
- ______ Diversification of operations.
- ______ Forward contract hedges.
- ______ Balance sheet hedging.

93. Operating exposure

- ______ Creates foreign exchange accounting gains and losses.
- ______ Causes exchange rates to fluctuate.
- ______ Is the possibility that future cash flows will change due to an unexpected change in foreig
- ______ Measures a country's propensity to import and export.

94. The objective of operating exposure management is

- ______ To eliminate the foreign exchange losses resulting from the settlement of outstanding fin
- ______ To maximize the foreign exchange gains resulting from the settlement of outstanding fin
- ______ To anticipate and influence the effect of unexpected changes in exchange rates on a firm'
- ______ To anticipate and influence the effect of expected changes in exchange rates on the firms

95. Foreign currency options can be purchased or sold to guard against changes in exchange rates during a

- ______ Exposure.
- ______ Hedging.
- ______ Positioning.
- ______ Parity.

96. Buying insurance policies for political risks are called ___________________

- ______ Adaptation
- ______ Diversification
- ______ Risk transfer
- ______ Avoidance

97. Interest Rate Parity (IRP) states

- ______ Interest rate should change in an equal amount but in the opposite direction to the diffe
- ______ The difference in the national interest rates for securities of similar risk and maturity sho
- ______ Nominal interest rates in each country are equal to the required real rate of return plus c
- ______ The interest rates between two countries start in equilibrium, any change in the different run by an equal but opposite change in the spot exchange rate.

98. The mathematical relationship that links changes in exchange rates and changes in price level is called

- ______ Purchasing Power Parity.
- ______ the Law of One Price.
- ______ The Fisher effect.
- ______ Efficient Market Theory.

99. Independent services that provide political risk rating include: Country Risk Rating. Economist Intellige

- ______ International Country Risk Guide.
- ______ Monetary rating guide.
- ______ United Kingdom Parity rate Guide.
- ______ Japanese Hedging Rate Manual.

100. Which of the following is an acceptable method of adjusting for risk when analyzing the prospects of a

- ______ Adjusting the discount rate.
- ______ Adjusting the cash flows.
- ______ Conducting sensitivity and scenario analysis
- ______ All of the above are acceptable.

Chapter 2 - Financial Statements and Cash Flow

Chapter 3 - Evaluating a Firm's Financial Performance

Chapter 4 - Improving Financial Performance

Chapter 5 - Budgeting, Planning, and Financial Forecasting

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Chapter 13 - Short Term Financing

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Chapter 16 - International Finance

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