**C214 Study Guide Questions**

Revision 5

10/16/2018

***Overview of Finance***

1. Trading on the NYSE is executed without a specialist (i.e. a market maker).

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| True/False  2. Stocks and bonds are two types of financial instruments  True/False  3.  The matching principle in accrual accounting requires that:  a. Revenues be recognized when the earnings process is complete and matches expenses to revenues recognized.  b. Expenses are matched to the year in which they are incurred  c. Revenues are matched to the year in which they are booked  d. Revenues should be large enough to match expenses  4. A high-quality customer just purchased $500,000 worth of product from your company. The contract calls for immediate delivery of the product with a cash payment of $300,000 today and $200,000 to be paid 60 days.  The expense associated with the product is $300,000, of which $100,000 has not been paid to your supplier. Under accrual based accounting system, you will most likely report:  a. revenues of $300,000 and expenses of $300,000.  b. revenues of $300,000 and expenses of $200,000.  c. revenues of $500,000 and expenses of $300,000.  d. revenues of $500,000 and expenses of $200,000.  ***Income Statement/Balance Sheet***  5. A firm reported retained earnings of $300 in 12/31/20x2. For 12/31/20x3, the firm reports retained earnings of $400 and pays dividends of $25.  What was net income in 20x3?  a. 300  b. 400  c. 125  d. 100  6. A basic equation for the balance sheet is:  a. Equity = Assets – Liabilities  b. Liabilities = Equity + Assets  c. Assets = Liabilities – Equity  d. Assets = Equity – Liabilities  7. Why is the Balance Sheet known as a permanent statement?  a. Because the statement is sent to the SEC.  b. Because the other statements are reset at the end of the fiscal year  c. Because it is printed out and archived  d. Because it persists in the minds of the shareholders.  8. How do you calculate the change in Retained Earnings?  a. Ending Retained Earnings – Change in Cash  b. EBIT divided by Total Assets + Dividends  c. EBIT – Change in Cash – Dividends  d. Net Income – Dividends  9. Which of the following is generally true?  a. Gross Profit and Operating Income are the same  b. Cost of Goods Sold + Operating Expenses = Net Income  c. Operating Income and EBIT are the same  d. EBIT + Income Taxes = Net income  10. Which components are part of total assets?  a. Cash, Accounts Receivable, Short Term Debt  b. Cash Accounts Receivable, Inventory, Long Term Assets  c. Accounts Payable, Long Term Assets, Long Term Debt  d. Accounts Payable, Net Income, Equity  11. Which components are part of current assets?  a. Cash, Accounts Receivable, Property Plant & Equipment  b. Accounts Receivable, Accounts Payable, Inventory  c. Long Term Debt, Property Plant & Equipment, Common Stock  d. Inventory, Cash, Accounts Receivable, Short Term Investments  12. Which components are part of Total Liabilities?  a. Accounts Payable, Accounts Receivable, Short Term Debt  b. Long Term Debt, Common Stock, Retained Earnings  c. Bonds, Accounts Payable, Mortgage  d. Common Stock, Long Term Debt, Short Term Investments  ***Statement of Cash Flows***  13. Intel reported the following for 2014:  Net Income 100,000  Depreciation 20,000  Change in A/R 10,000  What is the cash flow from operating activities?  a. 100,000  b. 110,000  c. 120,000  d. (130,000)  14. Intel reported the following for 2014:  Gross Equipment (1/1/14) 50,000  Gross Equipment (12/31/14) 65,000  Net income 100,000  Depreciation 20,000  What is the cash flow from investing activities for 2014?  a. 100,000  b. 80,000  c. (15,000)  d. 15,000  15. What is the Cash Flow from Operations given the following information?  Net Income 450,000  Change in Accounts Receivable 120,000  Change in Inventory - 90,000  Change in PP&E 60,000  Depreciation Expense 110,000  Change in Accounts Payable 50,000  Change in Accrued Expenses - 75,000  Change in Common Stock 300,000  a. $570,000  b. $410,000  c. $505,000  d. $375,000  16. What is the Cash Flow from Investing?  Increase in Gross PP&E 125,000  Beginning Net PP&E 750,000  Ending Net PP&E 850,000  Depreciation Expense 25,000    a. ( 850,000)  b. (125,000)  c. 150,000  d. (75,000)  17. What is the Cash Flow from Investing?  Beginning Net PP&E 250,000  Ending Net PP&E 300,000  Depreciation Expense 40,000  Change in Long Term Investments 100,000  Change in Short Term Investments 50,000  a. 190,000  b. 150,000  c. 340,000  d. 90,000    18. What is the Cash Flow from Financing?  Accounts Payable 100,000  Accrued Expenses 50,000  Increase in Mortgage Payable 300,000  Decrease in Bonds Payable 75,000  Dividends Paid 80,000    a. 505,000  b. 225,000  c. 230,000  d. 145,000    19. When Fixed Assets increase what happens to Cash?  a. Cash stays the same  b. Cash increases  c. Cash decreases  d. Assets decrease  20. Last year a firm recorded Net PP&E of $4,600 while this year the same firm recorded Net PP&E of $4,500. If the depreciation expense for last year and this year are $500 and $800 respectively, what is the CFI of the company? (assume no asset disposals)  a. 100 outflow  b. 900 outflow  c. 100 inflow  d. 700 outflow  21. Which is the purpose of the statement of cash flows?  a. serves as the replacement for the income statement and balance sheet  b. explains the change in cash balance at one point in time  c. explains the change in cash balance for one period of time  d. both (a) and (b) above  22. Financial data for Intel is given below for 2014:   * EBIT 1,000,000 * Depreciation 30,000 * Change in working capital (10,000) * Net capital expenditures 15,000 * Tax rate 40%   Compute the Free Cash Flow for 2014  a. 610,000  b. 675,000  c. 625,000  d. 600,000  ***Financial Ratios***  23. Suppose the inventory turnover of a company is higher than the industry.  Based on this observation, which of the following is most likely?  a. The firm has lower liquidity than the industry average.  b. The firm has too much inventory thus impairing overall liquidity.  c. The firm has too little inventory resulting in lost sales or stock-outs.  d. The firm has low sales volume.  24. Intel provides the following data for 2014:   * A/R 600 * Inventory 800 * Fixed Assets 1,000 * A/P 500 * Long term debt 900 * Common Stock 400   What is the current ratio?  a. 1.2  b. 1.5  c. 2.0  d. 2.8  25. If a company wishes to obtain a bank loan, will it want to have a higher current ratio or a lower current ratio?  a. higher  b. lower  c. the same  d. it doesn’t matter  26. A company has cash of 100, accounts receivable of 250, inventory of 300, and accounts payable of 300. What is the quick ratio?  a. 0.33  b. 2.17  c. 1.00  d. 1.17  27. A company has cash sales of 200 and credit sales of 750. It’s average accounts receivable is 90. What is the A/R turnover? What is the Average Collection Period?  a. Turnover: 8.33 ACP: .694  b. Turnover: 10.56 ACP: 43.8  c. Turnover 8.33 ACP : 43.8  d. Turnover 10.56 ACP: 24.9  28. The OIROI (Operating Income Return on Investment) uses what elements on the income statement?  a. Operating Income, EBIT, Total Liabilities  b. EBIT, Total Assets  c. Sales, Total Assets, Equity  d. Net Margin, Total Current Assets  29. Why would a company be interested in the TAT(Total Asset Turnover) ratio?  a. How efficient assets are at producing income  b. What the turnover of sales is to liabilities  c. How efficient assets are at producing sales  d. How efficient assets are to liabilities and equity  30. If a company has current assets of 80 and fixed assets of 120, if Sales are 150 and EBIT is 35, what is the Fixed Asset Turnover?  a. 5.71  b. 2.29  c. 0.80  d. 1.25  31. If a company has current assets of 90 and fixed assets of 140, if it has debt of 125, what is its debt ratio?  a. 1.12  b. 0.54  c. 1.36  d. 1.84  32. A company has sales of 300, expenses of 200 and interest expense of 25, what is its Times Interest Earned ratio?  a. 2.00  b. 4.00  c. 1.75  d. 3.00  33. Suppose a firm has a financial leverage ratio of 2.50.  What percentage of the firm’s assets is financed by equity?  a. 40%  b. 70%  c. 50%  d. 60%  ***Time Value of Money – Perpetuities***  34. What is the present value of a stream of cash flows of $125,000 at a discount rate of 7%?  a. 875,000  b. 1,552,667  c. 1,785,714  d. 1,250,000  35. What is the discount rate of a stream of cash flows of 50,000 that have a present value of 450,000?  a. .11  b. .10  c. .12  d. .75  36. What is the cash flow stream for a present value 1,000,000 at 5% paid in equal installments in the future?  a. 35,000  b. 50,000  c. 500,000  d. 20,000  37. A woman has just found out that a rich great-aunt has bequeathed a trust fund that pays $50,000 to her and to her descendants forever. If the trust fund earns 3.5% interest, what is the amount of the trust fund?  a. 1,782,425  b. 5,000,000  c. 1,428,571  d. 2,529,123  ***Time Value of Money***  38. A couple wants to save up for a down payment on a house. They think they need to save 100,000 in five years. If the interest rate is 4% and they start at the end of the year when they both get bonuses from their employers, what do they have to put aside annually?  a. 22,096.37  b. 17,752.61  c. 15,962.84  d. 18,462.71  39. A person wants to put aside $500 at the beginning of each month for 10 years. If she estimates an interest rate of 5.5%, what will she have in her savings account at the end?  a. 86,437.68  b. 70,154.99  c. 80,118.33  d. 76,905.66  40. A couple has $25,000 in their retirement savings today. How many years do they have to save at 6%, putting in $1,000 at the beginning of each year to achieve $80,000?  a. 20.0  b. 34.8  c. 22.2  d. 36.7  41. A mother wants to help her child’s higher education fund. She wishes to have $15,000 available each year for six years. Her child starts college in 15 years and she can save 6% before school starts if she puts her end-of-year bonus into a trust fund and figures that the fund will earn 4% after her child begins her college education. What does she have to put aside annually if the money is withdrawn for college at the beginning of each year attending college?  a. 5,802.74  b. 3,346.19  c. 4,159.87  d. 3,513.38  42. A man has just inherited $250,000. If he invests the money at 4.5%, what can he expect to have at the end of 15 years when he retires?  a. 120,254.27  b. 483,820.61  c. 519,732.04  d. 477,862.41  ***Debt Valuation***  43. A company wishes to issue 10 year bonds with a face value of $1,000 and a coupon rate of 5.5%. The market has shifted before the issuance and the bonds will sell at 94% of face value. What is the YTM of the bonds when they are sold?  a. 6.71%  b. 5.50%  c. 6.00%  d. 6.33%  44. You want to buy a semiannual bond that has 4 years left before maturity. It has a 6% coupon rate and the market yield is currently 5.2%. What is the price you are willing to pay?  a. 1,253.89  b. 1,028.56  c. 1,034.13  d. 868.95  45. What is the YTM for a 14-year semiannual bond that pays $35 every six months and has a purchase price of $980.00? Face value is $1,000.  a. 3.75%  b. 7.23%  c. 3.61%  d. 5.25%  46. What is the price of a 1- year $1,000 bond with a 3% coupon rate if the YTM is 5.2%?  a. 952.48  b. 1,068.17  c. 899.42  d. 979.09  47. A 5% semiannual $1,000 bond matures in 4 years. What is the YTM if the price is $1,069?  a. 1.58  b. 2.92  c. 1.75  d. 3.15  48. You are interested in a quarterly $1,000 bond that matures in 7 years and has a coupon rate of 6% and a YTM of 8%. What is the price?  a. 1,033.21  b. 895.87  c. 901.36  d. 893.59  49. You want to sell a bond for over $1,000. Can you do that if the coupon rate is 6.5% and the bond yield is 6.8%?  a. Yes  b. No  50. You are contemplating buying an annual bond or a semi-annual bond. Is there any difference in the price if the bond has the same data: 1,000 face value with a 4% coupon rate. The bonds mature in 5 years having identical YTMs of 4.8%. Why is there a price difference?  a. There isn’t a price difference  b. The payment is lower, so the price will be lower  c. Price is lower with additional compounding periods  d. Different payments make the price increase  51. A $1000 3% bond with a yield of 2.4% matures in 6 years. What is the price if the interest payments are made semiannually?  a. 1,033.34  b. 950.26  c. 1,056.20  d. 981.29  52. An investor wants to maximize the YTM. Which bond would they choose? Bond 1 has a price of $954 with a coupon rate of 7% and a maturity of 4 years. Bond 2 has a price of $972 with a coupon rate of 6.5 percent and a maturity of 6 years. Both have a face value of $1,000 and the coupon payments are paid semiannually.  a. Bond 1: 8.38 Bond 2: 7.08  b. Bond 1: 4.17 Bond 2: 3.54  c. Bond 1: 5.22 Bond 2: 7.08  d. Bond 1: 8.38 Bond 2: 3.54  53. What is the price of a six-year $1,000 bond with a coupon rate of 7.4% and a YTM of 6.2% that has semiannual payments?  a. 1,425.70  b. 1,059.37  c. 1,003.20  d. 1,023.48  54. An investor wants to make 5% YTM on a bond that is $1,000 face value with a coupon rate of 4.2%. What price would the investor pay if the bond payments are quarterly and the bond matures in 5 years.  a. 967.36  b. 976.42  c. 964.80  d. 955.40  55. A bond issued with a face value of $1,000 pays a 6% coupon rate semiannually. It matures in four years. Current market interest is 7.5% What is the price?   * 1. A 948.98   2. b. 949.76   3. c. 952.43   4. d. 1,051.87   56. A bond issued with a face value of $1,000 pays a 3% coupon rate and matures in seven years. If an investor wants a yield of 4%, what is the investor willing to pay for the bond?   * 1. a. 939.46   2. b. 1,067.04   3. c. 1,033.32   4. d. 939.98   57. An investor wants to know what the yield to maturity is for a $1,000 bond with a 5.5% coupon rate that matures in 5 years if the current market price is $955?   * 1. a. 7.23   2. b. 6.59   3. c. 6.33   4. d. 6.62   58. A $1,000 bond matures in six years. It pays $35 every six months. The current market price is 1,075. What is the yield?   * 1. a. 2.76   2. b. 3.12   3. c. 5.51   4. d. 6.03   ***Debt Valuation – APR vs. APY***  59. Which of the following gives the largest effective rate (APY)  a. 18.6% compounded monthly  b. 18.6% compounded daily  c. 18.6% compounded weekly  d. 18.6% compounded yearly  60. Suppose that an investment will pay 24% APR for a year and the interest will be compounded monthly. What is the expected APY for the investment?  a. 24.50%  b. 26.82%  c. 25.41%  d. 28.00%  ***Equity Valuation – Single Holding Period***  61. A stock sells for 87.00 one year from now giving a total return of 8%. What is the dividend if the stock was originally purchased for 82.00.  a. 5.00  b. 3.12  c. 8.06  d. 1.56  62. What does a stock have to sell for one year in the future, if it currently sells for $75, has a planned dividend of $1.87 a share and an expected return of 14%?  a. 71.00  b. 76.87  c. 83.63  d. 85.42  63. What would a dividend have to be if the investor buys a stock for $110, expects to sell the stock in a year for $120 and expects an annual return of 13%?  a. 4.30  b. 10.00  c. 3.40  d. 3.30  64. What would an investor be willing to pay for a stock today, if the value in a year would be $55 with a dividend of $2.24 per share and the investor wants to make 9% on the investment?  a. 52.51  b. 52.76  c. 53.10  d. 57.24  65. What is the rate of return for a stock purchased for $89, sold in a year for $100, paying a dividend during that time period of $2.75?  a. 11.00%  b. 13.75%  c. 15.45%  d. 14.25%  ***Equity Valuation – Gordon Growth Model***  66. A company just paid a dividend of 2.30 to its shareholder. It estimates that future growth will be at 2%. What is the value of the stock if you are looking for an 8% return on your investment?  a. 28.75  b. 38.33  c. 41.67  d. 39.10  67. If you are looking for a return of at least 10%, what would you invest in a company given that it just paid a dividend of 1.80, and estimates a growth rate of 3%?  a. 25.49  b. 26.49  c. 25.71  d. 28.28  68. You are interested in buying a preferred stock and want to know what the rate of return is. The stock is selling for $85.00 and pays a dividend today of $2.25. What is the rate of return?  a. .0265  b. .3176  c. .2650  d. .2250  69. The company expected to pay a dividend of $13.85 at the end of the year. Management has estimated growth at 2.75% and the stock is currently selling for $290.00. What is the expected rate of the return for this investment?  a. .0411  b. .0375  c. .0753  d. .0408  70. One of your friends is recommending a stock if it sells for more than $165.00 per share. The growth rate is 4% and the latest dividend was $6.00. You are expecting an 11% return. Why should you buy or not buy the stock?  a. Buy - The dividend is higher than the return  b. Not Buy - The return is higher than growth  c. Not Buy - The calculated price is too low  d. Buy – The calculated price is higher  71. An investor wishes to know what the value of a common stock is if it pays a dividend of $6.00 today. The company’s growth rate is 4.5% and the investor wants expects the stock to earn 7%. What is the value?   * 1. a. 179.14   2. b. 240.00   3. c. 85.71   4. d. 250.80   72. If a common stock is worth $75 and the growth rate is 5% with a dividend expected to pay $2.00 in a year’s time, what is the expected rate of return?   * 1. a. .0267   b. .0550   * 1. c. .0750   2. d. .0767   73. An investor wishes to know what the value of preferred stock, when the dividend is $3.00 per share and the expected rate of return is 6.5%?   * 1. a. 72.63   2. b. 46.15   3. c. 191.45   4. d. 56.15   ***CAPM – Expected Rate of Return in different Economic States***  74. What is the expected rate of return for a stock where there is a 60% chance of a recession and a 40% chance of an expansion? The stock would return 2% during a recession and 8% in an expansionary period.  Cycle Prob Stock  Recession 60% .02  Expansion 40% .08   * 1. a. .050   2. b. .100   3. c. .044   4. d. .056   75. What is the portfolio expected rate of return given the following information:   * Expansion probability is 55%, Recession probability is 45% * Stock A – Expansion return is 15%, recession return is 2% * Stock B – Expansion return is 12%, recession return is -3% * We own $75,000 worth of shares of Stock A and $15,000 worth of shares of Stock B.   Hint:  Cycle Prob Stock A Stock B  Recession 45% .02 -.03  Expansion 55% .15 .12  Mkt Val $75,000 $15,000   * 1. a. .1022   2. b. .0980   3. c. .0754   4. d. .0851   76. There are two economic states, expansion and recession. The probability of an expansion is 70%, the probability of a recession is 30%. What is the expected return of Alpha Company’s stock, if it has an expected return of 2% in a recession and 10% in an expansion?  Cycle Prob Stock  Recession 30% .02  Expansion 70% .10  a. .4218  b. .0314  c. .0760  d. .6000  ***Capital Asset Pricing Model***  77. What does the beta coefficient represent?  a. It is a statistically-derived measure of volatility  b. It is the Expected Return minus the Growth Rate  c. It is the volatility of the Risk Free Return  d. It is the expected return for a basket of preferred stocks  78. A stock has a beta of 2.1, a market premium of .14 where the market rate is .17. What is the expected rate of return?  a. .2949  b. .3571  c. .1703  d. .3240  79. The market rate is .14, Treasury bonds are returning .025. A stock has a beta of .75. What is that stock’s expected return?  a. .3007  b. .1113  c. .1052  d. .2491  80. A stock has a beta of 1.42. The stock market is returning .11 and treasury bills are trading at a rate of .014. What is the expected return?  a. .1503  b. .1562  c. .1085  d. .1240  81. A stock has an expected return of .16. The market premium is .11 and federal funds are returning .025. What is the beta?  a. 1.4545  b. 2.2758  c. 1.2273  d. 0.9870  82. The market rate is .09 and the risk-free rate is .015. If a stock has a beta of 1.92, what is the expected rate of return?  a. .1590  b. .1728  c. .1500  d. .1275  83. What is the Expected Rate of Return for a stock where treasury bills are returning 2.5% and the market as a whole, is returning 15%. The stock has a beta of 1.25?   * 1. a. .125   2. b. .156   3. c. .181   d. .100  84. What is the beta of a stock, where the expected rate of return is 14%, the market premium is 7% and the risk free rate is 3%.  a. 1.90  b. 0.95  c. 1.45  d. 1.57  85. If an investor knows the idiosyncratic risk, the investor knows the:  a. Profit Margin percentage  b. Beta Coefficient  c. Operating Leverage  d. Free Cash Flow  ***Weighted Average Cost of Capital***  86. Common stock is valued at 400,000, Long-term debt is valued at 250,000, and preferred stock is valued at 50,000. What is the WACC where common stock costs .16, long-term debt costs .08, and preferred stock costs .07? The tax rate is 40%.  a. .1275  b. .1495  c. .0942  d. .1135  87. Common stock is valued at 1,000,000 and costs .20. Bonds are valued at 850,000 and costs .04, Preferred stock is valued at 500,000 and costs .06. The tax rate is 40%. What is the pre-tax WACC?  a. .1229  b. .1124  c. .1404  d. .1015  88. Capital is valued at 3,000,000 consisting of 1,600,000 of common stock, 1,000,000 of bonds, 400,000 of short-term debt. CAPM expected return is .135. Bonds before tax are .045. Short term debt costs .065. What is the after tax WACC if the tax rate is 35%?  a. .0784  b. .1007  c. .0991  d. .0874  89. If a company has a capital structure of $100,000 common stock, $50,000 bonds and $10,000 preferred stock and the respective rates are 15% common stock, 3% bonds (after tax) and 4% preferred stock, what is the Weighted Average Cost of Capital?  a. .1057  b. .2200  c. .0733  d. .1128  90. If a company has a capital structure of $5 million common stock with a cost of 17%, $2 million bonds at 4%, $1 million of Short Term Debt with a cost of 7%, and $2 million preferred stock with a cost of 3%, what is the Weighted Average Cost of Capital? The company has a 40% tax rate.  a. .1322  b. .1196  c. .1000  d. .0899  91. If a company has a capital structure of internal equity of $15 million at 15%, a new offering of external equity of $5 million at 17% with flotation costs of 3%, and $10 million of bonds at 5% after tax, what is the Weighted Average Cost of Capital?  a. .1207  b. .1250  c. .1632  d. .1025  ***Capital Budgeting***  92. What is the initial outlay given the following information:   * Equipment Price 375,000 * Installation 10,000 * Power Survey 30,000 * Shipping 8,000 * Working Capital 100,000 * Project Marketing Report 15,000   a. 538,000  b. 503,000  c. 493,000  d. 488,000    93. What is the net equipment cost given the following when a new piece of equipment replaces an old one:   * Old equipment sells for 125,000 * Book value of old equipment 22,000 * Tax rate 40% * New equipment cost 800,000 * Site survey 18,000 * Installation cost 20,000   a. 820,000  b. 736,200  c. 717,000  d. 695,000  94. What is the net equipment cost from the following information?   * Old equipment sells for (net of taxes) 55,000 * New equipment at cost 190,000 * Installation and shipping 18,000 * Working Capital 62,000   a. 208,000  b. 270,000  c. 153,000  d. 197,000  95. A project has sales of 300,000, general expenses of 195,000 and depreciation expense of 25,000. The tax rate is 35%. What is the differential cash flow?  a. 52,000  b. 105,000  c. 80,000  d. 77,000  96. Why is depreciation expense taken out of the net income calculation, yet added back at the end?  a. Because fixed assets should remain on the balance sheet  b. Because depreciation is not a current asset  c. Because depreciation is a non-cash liability  d. Because depreciation expense is tax deductible  97. A project has net income of 750,000 including depreciation expense of 42,000. What is the differential cash flow?  a. 750,000  b. 708,000  c. 42,000  d. 792,000  98. A piece of equipment is to be sold at the end of the project. Its appraised value is 420,000. A company makes an offer for 350,000. The equipment has a book value of 75,000. The tax rate is 40%. What is the salvage value if the company accepts the offer?  a. 252,000  b. 207,000  c. 240,000  d. 350,000  99. A piece of equipment was sold at the end of the project. The project received 85,000 for the equipment that carried a book value of 75,000. The tax rate is 35%. What is the salvage value?  a. 10,000  b. 26,250  c. 85,000  d. 81,500  100. A project is closing. Equipment is sold for 50,000 even though the book value was 75,000. The tax rate is 30%. The project started with 100,000 in working capital. What is the terminal cash flow?  a. 127,500  b. 75,000  c. 152,500  d. 157,500  101. Equipment is scrapped at the end of the project and has a book value of 20,000. The tax rate is 35%. The projected started with 75,000 of working capital. What is the terminal cash flow?  a. -20,000  b. 82,000  c. 55,000  d. 75,000  102. Equipment is sold for 30,000 at the end of a project. The working capital return is 50,000. The tax rate is 40%. What is the terminal cash flow?  a. 68,000  b. 50,000  c. 80,000  d. 18,000  103. What is the NPV and IRR for an investment of $550,000 with annual differential cash flows of: Yr 1: $75,000, Yr 2: $90,000, Yr 3: $125,000, Yr 4: $100,000, Yr 5: $80,000 and a terminal cash flow of 180,000 if the company uses a discount rate of 7%?  a. NPV: -37,594 IRR: 4.837%  b. NPV: -75,533 IRR: 3.880%  c. NPV: 152,792 IRR: 5.329%  d. NPV: 148,099 IRR: 4.837%  104. Why would we reject this project based on the NPV?  a. The NPV is lower than the IRR  b. The NPV is lower than investment  c. The NPV is a negative number  d. The IRR is positive.  105. Why would we reject this project based on the IRR?  a. The IRR is higher than the sum of the cash flows  b. The discount rate is lower than the IRR  c. The IRR is higher than the NPV  d. The discount rate is higher than the IRR  106. What is the differential cash flow given the following:   * + Sales 50,000   + Expenses (w/o Depn) 30,000   + Depreciation 10,000   + Taxes (.40) 4,000  1. a. 16,000 2. b. 10,000 3. c. 6,000 4. d. 50,000   107. From the following information, calculate the terminal cash flow.   * Proceeds from sale of equipment 100,000 * Book Value of equipment sold 50,000 * Year 3 Diff Cash Flow 225,000 * Tax rate 40% * Depreciation Yrs 1 to 5 125,000 * Working Capital Return 75,000  1. a. 485,000 2. b. 175,000 3. c. 125,000 4. d. 155,000   108. If the Investment is 140,000, then what is the Net Present Value, given a Total Present Value of 154,606?   1. a. 140,000 2. b. -71,448 3. c. 14,606 4. d. -123,420   109. Why is the NPV preferred over the IRR? Pick Two  a. It has a higher dollar value  b. It measures the dollar value  c. It is more reliable  d. It is harder to calculate  110. What is the IRR given the following: Investment is $250,000, Yr 1: 50,000, Yr 2 is 60,000, Yr 3 is 80,000, Yr 4 is 100,000, Yr 5 is 90,000, the terminal cash flow is 45,000?  a. 15.949%  b. 13.997%  c. 11.549%  d. 17.213%  111. If a WACC of 15.00% is used to compute the NPV, what does the IRR computed in the previous question above tell us about the project?  a. The NPV is too large  b. The project is acceptable  c. We can’t make a decision based on the data  d. The project is unacceptable  ***Financial Forecasting - Discretionary Financing Needed***  112. If Sales are $1,000,000, then what are the total current assets given the following:   * + - Cash 25% of Sales     - Accounts Receivable 13% of Sales     - Accounts Payable 10% of Sales     - Accrued Payroll 5% of Sales     - Cost of Goods Sold 50% of Sales     - Inventory 15% of Cost of Goods Sold   a. 1,030,000  b. 380,000  c. 338,000  d. 455,000  113. Mountain Inc. forecasts sales of 450 million. It has established the following percentages of spontaneous accounts: 5% of Cash, 17% of A/R, 11% of Inventory, 48% of PP&E, 18% of A/P. A mortgage of 30 million, bonds of 50 million, equity of 150 million and earnings of 35 million. What is the DFN?  a. -16.5 million  b. 18.5 million  c. 33 million  d. 15.5 million  114. Dishwasher Heaven, Inc. forecasts sales of 750,000. Their financial department has developed the following forecast percentages based on historical averages: Cash 11%, A/R 8%, 13% for inventory and accounts payable of 14%. Property Plant and Equipment is 210,000. The company has long term debt of 120,000 and equity of 85,000. It estimates profits at 55,000. What is the DFN?  a. 30,000  b. 25,000  c. 85,000  d. 110,000  ***Financial Forecasting – Sustainable Growth Rate***  115. Dinosaur Chicken Co. had sales of 70,000,000, expenses of 50,000,000 and paid 40% in taxes. It has equity of 42,000,000. The board approved dividends totaling 4,500,000. What is the company’s Sustainable Growth Rate?  a. .1786  b. .1667  c. .6015  d. .1429  116. UltraGrunge, Inc. earned 25 million after tax in the last year. The company has 100 million in assets and 85 million in equity. It has a policy of paying 12% of earnings as dividends. What is the SGR of UltraGrunge?  a. .2200  b. .1285  c. .0353  d. .2588  117. What is the increase in Retained Earnings given the following:   * + - Sales are $10 million     - Net Earnings pre-tax are $1 million     - Dividend payout ratio is .12     - Tax rate is 40%   a. 400,000  b. 726,000  c. 880,000  d. 528,000  118. What is the Sustained Growth Rate given the following:   * + - Sales are 2.5 million     - Total Expenses (including cost of goods sold through taxes) 2.0 million     - Total Assets are 3.0 million     - Equity is 1.3 million     - Dividend payout ratio is .25   a. .2552  b. .2885  c. .7500  d. .3846  ***Capital Structure***  119. When a company uses more leverage as evidenced by a higher degree of either financial or operating leverage, what effect does it have on changes in profitability?  a. When leverage goes up liquidity goes down.  b. Higher leverage leads to lower risk.  c. Higher leverage leads to higher profitability for a given sales level  d. Lower leverage results in higher income to shareholders.  120. A company has an EBIT of 700,000 and interest expense of 30,000. B company has EBIT of 1,500,000 and interest expense of 30,000. Which company has a higher degree of financial leverage?  a. Company A  b. Company B  c. Company A and B have the same leverage  d. Insufficient data to make a determination  121. What is the operating leverage of the Company Y? How will that affect profits compared with Company Z that has an operating leverage of 5.25? Company Y has an EBIT of 3,000,000, Sales of 25,000,000 and variable expenses of 18,000,000  a. Operating leverage of 2.33 As sales increases, the profits of both companies will stay the same.  b. Operating leverage of .43 As sales increases Y’s profits will rise faster than Z’s  c. Operating leverage of 2.33 As sales increases, Y’s profits will rise slower than Z’s  d. Operating leverage of .43 As sales increases Y’s profits will rise slower than Z’s  122. What is the financial leverage of Company A? How will that leverage affect profits compared to Company B if sales decrease? For Company A, EBIT is 500,000, interest expense is 50,000, Sales are 4,500,000, and variable costs are 3,000,000.  a. Degree of Financial leverage: 1.11 Interest costs rise as sales decreases.  b. Degree of Financial leverage: 3.00 Profits increase as sales decreases.  c. Degree of Financial leverage: 1.11 Profits decrease more as leverage increases  d. Degree of Financial leverage: 3.33 Profits increase as interest expense increases  123. What is the degree of combined leverage when EBIT is 700,000, interest expense is 100,000, Sales is 3,500,000 and variable costs are 1,200,000?  a. 5.000  b. 2.917  c. 0.462  d. 3.833  124. What is the Degree of Operating Leverage given Sales of 100,000. Variable Costs of 75,000 and EBIT of 10,000?   1. a. 1.00 2. b. 2.50 3. c. 10.00 4. d. 2.05   125. What does the Degree of Financial Leverage indicate?   1. a. The firms cash balance 2. b. The cost of financed assets 3. c. The reliance on debt 4. d. The reliance on assets   126. If a company has a high degree of financial leverage, what does that tell us about the firm’s risk profile?   * 1. a. Low Risk   2. b. Appropriate Risk   3. c. Higher ability to pay debt   4. d. Higher profits to shareholders   ***Working Capital Management***  127. What is the cash cycle?  a. The speed of collecting cash from customers  b. The amount of cash kept in banks  c. The comparison of debt to cash  d.The amount of time to regenerate cash  128. Why is float important to understand?  a. To know how to keep the company profitable  b. To know why the company needs cash  c. To determine when to buy fixed assets  d. To time cash expenditures  e. None of the above  129. What should a company do to manage its working capital?  a. Collect quickly and pay slowly  b. Keep a large cash balance  c. Maximize the use of long term investment  d. Depreciate assets more slowly  130. Company A wishes to keep 20% of its assets as cash. Company B keeps its cash balance at 5% of assets. Which of the following statements apply?  a. Company A is less liquid than Company B  b. Company B invests in more working current assets  c. Company A uses better working capital management  d. Company B has a more conservative cash policy  131. Company A offers trade credit of 2% 10 / net 30 and Company B offers trade credit at net 30. What can be said about the credit policies of each company?  a. Company B has a looser credit policy  b. Company A keeps more of its Accounts Receivable  c. Company A can attract more customers  d. Company B can attract more customer  132. Which of the following characterizes collection float  a. Longer float indicates good financial practices  b. Increased float indicates slower processing time  c. Accounts receivable increase with shorter float  d. Liquidity is enhanced with longer float  133. Company A’s inventory is larger than Company B. Both companies are competitors and are about the same size. What does this difference mean from a working capital management standpoint?  a. Company B has lower inventory float  b. Company A has more cash in hand  c. Company B might have higher inventory turnover  d. Company A has tighter credit.  134. In regards to Accounts Payable balances, which of the following is true:  a. Higher Accounts Payable is better than a lower balance  b. Paying off A/P as soon as possible is good policy  c. Increased Accounts Payable means faster collections  d. Paying off A/P on the last day due is good policy  ***Firm Valuation***  135. Ajax, Inc. is seeking to sell the company, but it is a private company with no sales of stock to determine its market value. It has Earnings of $1,200,000 on 350,000 shares. Epsilon Manufacturing is a direct competitor and of equal size and profitability. Its stock sells for $21 per share and has earnings per share of $3.80. What is value of Ajax?  a. 7,350,000  b. 1,330,000  c. 6,632,000  d. 7,000,000  136. Ham Corp. is seeking to buy Eggs, Inc. Eggs is a private company. Eggs had an EPS of 2.80 last year and has 125,000 shares outstanding. Ham Corp. stock sells for $43.00 and has an EPS of 5.00. Ham is larger than Eggs, but sees both companies as operating in similar markets. What is the value of Eggs?  a. 1,920,000  b. 3,010,000  c. 2,800,000  d. 5,375,000  137. What would be a source of information to determine Replacement Cost?  a. Building Appraisal  b. Accumulated Depreciation Expense  c. Stock price  d. Statement of Cash Flows  138. What is the company valuation given the following:  Cash Flows: Yr 1 $80,000, Yr 2 $100,000, Yr 3 $95,000, Yr 4 $80,000 Discount Rate 7%  a. 300,690  b. 61,032  c. 355,000  d 242,090  139. What is the Discounted Cash Flow of the company with the following Cash Flows:  Cash Flows: Yr 1 $100,000, Yr 2 $150,000, Yr 3 $150,000, Future Forecasted Annual Cash Flows $100,000. Discount Rate 5%  a. 2,400,000  b. 2,360,868  c. 1,727675  d. 2,088,543  140. If two companies have earnings of $2,000,000, and Company X has a multiple of 1.2 and Company Z has a multiple of 2.0, what can we estimate about the value of each company?  a. The value is the same  b. The value of Company X is higher  c. The value of Company Z is higher  d. The relative value can’t be determined  141. Calculate the Free Cash Flow given the following information:   * + Net Working Capital increases by 20,000   + Tax Rate is .40   + EBIT is 250,000   + Capital Expenditures are 10,000   + Depreciation is 15,000   a. 175,000  b. 200,000  c. 115,000  d. 135,000  142. If a company has a constant growth rate estimated at 5% and a Free Cash Flow of 150,000, what is its estimated valuation (terminal value)?  a. 3,000,000  b. 7,500  c. 2,500,000  d. 1,500,000  ***Government Regulation***  143. Dodd-Frank regulates which segment of the U.S. Economy?  a. Fannie Mae and Freddie Mac (Housing financing)  b. Banking Industry  c. Multi-level Marketing Industry  d. Automobile Industry  144. The SEC Securities & Exchange Commission requires companies to do the following: (pick two)  a. Register all public offerings  b. Change CEOs on a regular basis  c. Regulates stock sales  d. Prohibits foreign bribery  e. Regulates the Money Supply  145. What does the Sarbanes-Oxley Act require companies to do?  a. Have a board of directors  b. Register all foreign sales  c. Make estimated tax payments  d. Have internal control audits  146. FINRA (Financial Industry Regulatory Authority) does the following: (pick one)  a. No foreign bribery by corporations  b. Regulates bond prices  c. Establishes Credit Unions  d. Prosecutes naughty stock brokers  e. Regulates Hedge Funds  ***Global Financing***  147. If a product is made 100% domestically, what can affect its domestic market?  a. International exchange rates  b. International competition  c. Product tariffs  d. International political regulations  148. If a company makes its product in a foreign country where labor costs are much lower, what happens?  a. Profits and domestic employment goes up  b. Costs go up and domestic employment goes down  c. Costs stay the same and domestic employment increases  d. Profits go up and domestic employment decreases.  149. If the value of a dollar increases, the price of imports:  a. Increases  b. Decreases  c. Stays the same  d. Fluctuates  150. Why would a farmer buy a hedge when he signs a contract to sell produce overseas?  a. To avoid tariffs  b. To reduce currency risk  c. To increase profits  d. To avoid competition |
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