

Sophia

Principles of Finance

Milestone Final

1

Mason is a financial analyst who specializes in securities. When providing an analysis of securities to which he has a personal connection, he discloses his conflict of interest.

By doing so, which federal regulation is he complying with?

Securities Act Amendments of 1975

Securities Act of 1933

Sarbanes-Oxley Act of 2002

Securities Exchange Act of 1934

CONCEPT

Market Regulation

2

You deposit \$7,000 in a bank account that earns 2% compound interest annually.

What is the value of your \$7,000 in four years?

\$6,423

\$7,577

\$7,560

\$6,440

## CONCEPT

### Future Value, Single Cash Flows

3

Company A      Company B

Market Value of Equity \$700,000      \$900,000

Market Value of Debt \$300,000      \$200,000

Cost of Equity 8%      10%

Cost of Debt 1.5%      3%

Tax Rate 30%      25%

Based solely on their current weighted average cost of capital, which company should pursue an investment opportunity with an expected return of 7%?

Both Company A and Company B

Neither Company A nor Company B

Only Company B

Only Company A

CONCEPT

The WACC

4

What must be forecasted first in order to prepare the pro forma income statement?

Cost of goods sold

Sales

Net income

Expenses

CONCEPT

Forecasting the Income Statement

5

Lucas is worried about his company's short-term viability.

What type of financial statement should he look at?

Statement of changes in equity

Cash flow statement

Balance sheet

Income statement

CONCEPT

Introducing Financial Statements

6

Which of the following is true of a market maker?

Market makers help companies to negotiate mergers and acquisitions.

**Market makers assist with market liquidity by facilitating the exchange of securities.**

Market makers purchase a company's securities before an IPO and then resell them at a premium.

Market makers rate the creditworthiness of the issuer.

## CONCEPT

The Role of Investment Banks in Financing

7

Bill wants to buy a bond whose face value is substantially higher than its market price.

What kind of bond should he buy?

Government

Asset-backed

**Zero-coupon**

Inflation-linked

## CONCEPT

Types of Bonds

8

Ashlee's friend owes her \$100, but he cannot pay it back today. Instead, Ashlee's friend promises to pay her \$120 in one year to account for the time value of money.

That extra \$20 represents the \_\_\_\_\_.

pricing

discount

interest

present value

## CONCEPT

Introduction to the Time Value of Money

9

Select the best definition of an annuity-due.

An annuity whose payments can be made at any point during the period

An annuity whose payments are made at the end of the period

An annuity that has matured

An annuity whose payments are made at the beginning of the period

#### CONCEPT

Annuities

10

Determine the value of a stock with the following variables using the constant growth model:

Current annual dividend: \$0.85 per share

Required return rate: 7%

Constant growth rate: 4%

\$30.32

\$28.33

\$29.47

\$22.74

CONCEPT

Stock Valuation

11

The purpose of a pro forma balance sheet is to \_\_\_\_\_.

analyze historical data

analyze the effects of a sales forecast

compare previous accounting periods

prepare for a financial audit

CONCEPT

Forecasting the Balance Sheet

12

Alyx needs additional short-term financing to modify her children's clothing business. To generate funds, she sells her accounts receivable to an external party for slightly less than their book value.

What type of financing resource is Alyx using?

Peer-to-peer lending

Factoring

Commercial lending

Trade credit

CONCEPT

Short-Term Financing

13

Xander is looking for ways to reduce his non-operating expenses to improve his company's overall financial performance, so he consults his most recent income statement.

Which of the following should he focus on?

Income taxes

Amortization

Depreciation

Wages

CONCEPT

The Income Statement

14

The capital asset pricing model is useful for \_\_\_\_\_.

projecting a company's future performance

determining the discount rate on a company's long-term debt

valuing the net present value of a project

assessing the ratio between risk and return on an investment

CONCEPT

Approaches to Calculating the Cost of Capital

15

Which of the following is an advantage of bonds for a potential investor?

All bonds have the same interest rate, so they are predictable.

The diversity of bond types means they respond easily to market needs.

They typically generate higher returns than stocks.

Companies can choose to pay off bonds early.

## CONCEPT

Advantages and Disadvantages of Bonds

16

What is a question that should be asked about inventory when forecasting?

What is the anticipated ratio of credit to cash sales?

Is the company's liquidity sufficient?

What are the current storage costs?

How quickly can we collect cash receipts?

## CONCEPT

### Analyzing Forecasts

17

If you invest in two stocks, and their values both rise on one day and then fall on the next day, they have \_\_\_\_\_.

a large covariance

a positive beta value

a zero covariance

a negative beta value

## CONCEPT

### Implications Across Portfolios

18

Consider the P/E ratios of the following companies:

Company A: 5.34

Company B: 3.33

Company C: 7.90

Company D: 6.75

Which company has the lowest relative value among investors?

Company D

Company A

Company B

Company C

CONCEPT

Market Value Ratios

19

Which of the following is true of venture capital?

Venture capitalists reserve the right to sell their portion of company shares before an IPO.

One way venture capitalists evaluate potential investments is by analyzing a company's share price.

On average, venture capital investors seek a return on their investment in about five years.

Venture capital is comparable to a bank loan, which must be repaid over time.

CONCEPT

Venture Capital

20

Which of the following would explain a company's inventory turnover ratio rising from 2.5 to 3.5?

The company's cost of goods sold has decreased while the average inventory has remained constant.

The company's total sales has decreased while the average inventory has increased.

The company's total sales has decreased while the average inventory has remained constant.

The company's cost of goods sold has remained constant while the average inventory has decreased.

CONCEPT

Asset Management Ratios

21

A company has a 70-day operating cycle, with 15 payable days, 25 receivable days and 45 inventory days.

What is their cash conversion cycle?

35

30

55

85

## CONCEPT

### Cash Conversion Cycle

22

You invest \$3,000 in a stock that has a 10% chance of a 2% return, a 70% chance of a 6% return and a 20% chance of a 15% return.

What is your expected return after one year?

7.4%

5.6%

8.8%

6.0%

#### CONCEPT

Expected Return

23

Calculate a company's total leverage given the following information:

Net income = \$80,000

Revenue = \$120,000

Variable costs = \$25,000

Cannot calculate without knowing degree of financial leverage

1.19

1.14

Cannot calculate without EPS data

## CONCEPT

### Thinking About Financial Leverage

24

What is one potential advantage of being a publicly-held company?

A public company has fewer requirements to meet when it comes to shareholder communication and reporting.

A public company always has a higher share price than a private company.

A public company may gain from greater investor involvement than a private company.

A public company may have a more prominent reputation than a private company.

## CONCEPT

### Comparing Public and Private Financing

25

Select one disadvantage of IRR as a capital budget method.

Projects of similar durations are not easily compared using IRR.

It is only useful with projects that have negative cash flows.

It can obscure the planning of mutually exclusive projects if one project has a higher IRR and another has a higher NPV.

It involves complex calculations that are not always reliable.

## CONCEPT

### Internal Rate of Return