

1.

A firm with sales of \$1,000,000, net profits after taxes of \$30,000, total assets of \$1,500,000, and common stockholders' investment of \$750,000 has a return on equity of \_\_\_\_\_.

(Points : 2.5)

- ☐ 20 percent
- ☐ 15 percent
- ☐ 3 percent
- ☐ 4 percent

Question 2. 2.

Asset P has a beta of 0.9. The risk-free rate of return is 8 percent, while the return on the market portfolio of assets is 14 percent. The asset's required rate of return is \_\_\_\_\_.

(Points : 2.5)

- ☐ 13.4 percent
- ☐ 22.0 percent
- ☐ 15.4 percent
- ☐ 6.0 percent

Question 3. 3.

The \_\_\_\_\_ market is where securities are initially issued and the \_\_\_\_\_ market is where pre-owned securities (not new issues) are traded.

(Points : 2.5)

- ☐ primary; secondary

☐

money; capital

☐

secondary; primary

☐

primary; money

Question 4. 4.

A \_\_\_\_\_ measures the dispersion around the expected value.

(Points : 2.5)

☐

coefficient of variation

☐

chi square

☐

mean

☐

standard deviation

Question 5. 5.

For the year ended December 31, 2014, a corporation had cash flow from operating activities of \$20,000, cash flow from investment activities of -\$15,000, and cash flow from financing activities of -\$10,000. The statement of cash flows would show a \_\_\_\_\_.

(Points : 2.5)



net increase of \$5,000 in cash and marketable securities



net decrease of \$5,000 in cash and marketable securities



net decrease of \$15,000 in cash and marketable securities



net increase of \$25,000 in cash and marketable securities

Question 6. 6.

Which of the following is a source of cash flows?

(Points : 2.5)



increase in marketable securities



increase in accounts payable



decrease in notes payable



repurchase of stock

Question 7. 7. The present value of \$200 to be received 10 years from today, assuming an opportunity cost of 10 percent, is \_\_\_\_\_. (Points : 2.5)

☐ \$ 50

☐

\$200

☐ \$518

☐

\$ 77

Question 8. 8.

Which of the following activities of a finance manager determines the types of assets the firm holds?

(Points : 2.5)

☐

budget allocation

☐

investment decisions

☐

financing decisions

☐

analyzing and planning cash flows

Question 9. 9. Emmy Lou, Inc. has an expected dividend next year of \$5.60 per share, a constant growth rate of dividends of 10 percent, and a required return of 20 percent. The value of a share of Emmy Lou, Inc.'s common stock is \_\_\_\_\_. (Points : 2.5)

☐

\$28.00

☐

\$56.00

☐

\$22.40

☐

\$18.67

Question 10. 10.

Which of the following is a means of selling bonds or stocks to the public?

(Points : 2.5)

☐

private placement

☐

public offering

☐

organized selling

☐

direct placement

Question 11. 11.

Making financing decisions includes \_\_\_\_\_.

(Points : 2.5)

☐

determining the appropriate mix of short-term and long-term financing

☐

deciding on which individual securities to select for investment

☐

analyzing quarterly budget and performance reports

☐

improving the productivity of manufacturing products

Question 12. 12.

A firm has an issue of \$1,000 par value bonds with a 9 percent stated interest rate outstanding. The issue pays interest annually and has 20 years remaining to its maturity date. If bonds of similar risk are currently earning 11 percent, the firm's bond will sell for \_\_\_\_\_ today.

(Points : 2.5)

☐

\$1,000

☐

\$716.67

☐ \$840.73

☐ \$1,123.33

Question 13. 13.

Corporate bonds have a \_\_\_\_\_.

(Points : 2.5)

☐ face value of \$5,000

☐ market price of \$1,000

☐ specified coupon rate paid annually

☐ par value of \$1,000

Question 14. 14.

The primary concern of creditors when assessing the strength of a firm is its \_\_\_\_\_.

(Points : 2.5)

☐ profitability

☐ leverage

- ☐ short-term liquidity
- ☐ share price

Question 15. 15.

Risk aversion is the behavior exhibited by managers who require \_\_\_\_\_.

(Points : 2.5)

- ☐ an increase in return, for a given decrease in risk
- ☐

an increase in return, for a given increase in risk

☐

no changes in return, for a given increase in risk

☐

decrease in return, for a given increase in risk

Question 16. 16.

From a corporation's point of view, a disadvantage of issuing preferred stock is \_\_\_\_\_.

(Points : 2.5)

☐

that it increases financial leverage

☐

that it has to give fixed payments as well as voting rights to the holders

☐



its excellent merger security

☐

that the dividends are not tax-deductible

Question 17. 17.

Given a financial manager's preference for faster receipt of cash flows, \_\_\_\_\_.

(Points : 2.5)

☐

a longer depreciable life is preferred to a shorter one

☐

a shorter depreciable life is preferred to a longer one

☐

the manager is not concerned with depreciable life, because depreciation is a noncash expense

☐

the manager is not concerned with depreciable life, because once purchased, depreciation is considered a sunk cost

Question 18. 18. A firm has a year-end retained earnings balance of \$220,000 for 2014. The firm reported net profits after taxes of \$50,000 and paid dividends of \$30,000 in 2015. The firm's retained earnings balance at 2015 year end is \_\_\_\_\_. (Points : 2.5)

☐

\$240,000

☐

\$250,000

☐

\$270,000

☐ \$300,000

Question 19. 19.

Operating profit is known as \_\_\_\_\_.

(Points : 2.5)

☐

earnings after interest and taxes

☐

earnings before interest and taxes

☐

earnings before depreciation and taxes

☐

earnings after tax

Question 20. 20.

Mary will receive \$12,000 per year for the next 10 years as royalty for her work on a finance book. What is the present value of her royalty income if the opportunity cost is 12 percent?

(Points : 2.5)

☐

\$120,000

☐

\$ 38,640

☐

\$ 67,800

☐

\$ 72,560

Question 21. 21.

A debt instrument indicating that a corporation has borrowed a certain amount of money and promises to repay it in the future under clearly defined terms is called a(n) \_\_\_\_\_.

(Points : 2.5)

☐

common stock

☐

corporate bond

☐

indenture

☐

preferred stock

Question 22. 22. If the required return is greater than the coupon rate, a bond will sell at \_\_\_\_\_. (Points : 2.5)

☐

par

☐

a discount

☐

a premium

☐

book value

Question 23. 23.

Investment banks are institutions that \_\_\_\_\_.

(Points : 2.5)

☐

perform all activities of commercial banks and retail banks

☐

are exempted from Securities and Exchange Commission regulations

☐

engage in trading and market making activities

☐

are only limited to capital market activities

Question 24. 24.

If a manager prefers investments with greater risk even if they have lower expected returns, then he is following a \_\_\_\_\_ strategy.

(Points : 2.5)

☐

risk-seeking

☐

risk-indifferent

☐

risk-averse

☐

risk-neutral

Question 25. 25. A firm has an issue of \$1,000 par value bonds with a 12 percent stated interest rate outstanding. The issue pays interest annually and has 10 years remaining to its maturity date. If bonds of similar risk are currently earning 8 percent, the firm's bond will sell for \_\_\_\_\_ (Points : 2.5)

☐

\$1,000

☐

\$805.20

☐

\$1,115.50

☐

\$1,268.40

Question 26. 26.

Generally, an increase in risk will result in \_\_\_\_\_.

(Points : 2.5)

☐

a lower required return or interest rate

☐

a higher return on investment

☐

a lower return on investment

☐

a higher required return or interest rate

Question 27. 27. Because equityholders are the last to receive any distribution of assets as a result of bankruptcy proceedings, they expect \_\_\_\_\_. (Points : 2.5)

☐

fixed dividend payments

☐

greater returns from their investment in the firm's stock

☐

all profits to be paid out in dividends

☐

warrants to be attached to the stock issue

Question 28. 28. The primary goal of a financial manager is \_\_\_\_\_. (Points : 2.5)

☐ minimizing risk

☐ maximizing profit

☐ maximizing wealth

☐ minimizing return

Question 29. 29.

\_\_\_\_\_ measures the overall effectiveness of management in generating profits with its available assets.

(Points : 2.5)

☐ Total asset turnover

☐ Price/earnings ratio

☐ Return on equity

☐ Return on total assets

Question 30. 30.

A(n) \_\_\_\_\_ is a graphic depiction between the maturity and rate of return for bonds with similar risks.

(Points : 2.5)

☐ yield curve

☐ supply function



risk-return profile



aggregate demand curve

Question 31. 31.

\_\_\_\_\_ are promised a fixed periodic dividend that must be paid prior to paying any common stock dividends.

(Points : 2.5)



Preferred stockholders



Common stockholders



Bondholders



Creditors

Question 32. 32.

An efficient market is one where \_\_\_\_\_.

(Points : 2.5)





prices of stocks move up and down widely without apparent reason

- ☐ prices of stocks remain low for long periods of time
- ☐ prices of stocks are unaffected by market news
- ☐ the price of a security is an unbiased estimate of its true value

Question 33. 33.

A corporation sold a fixed asset for \$100,000. This is \_\_\_\_\_.

(Points : 2.5)

☐ an investment cash flow and a source of funds

☐ an operating cash flow and a source of funds

☐ an operating cash flow and a use of funds

☐ an investment cash flow and a use of funds

Question 34. 34.

Nico Corporation has cost of goods sold of \$300,000 and inventory of \$30,000, then the inventory turnover is \_\_\_\_\_ and the average age of inventory is \_\_\_\_\_.

(Points : 2.5)

☐ 36.5; 10

☐ 10; 36.5

☐ 36.0; 10

☐

30; 36.0

Question 35. 35.

Which of the following is a marketable security?

(Points : 2.5)

☐

mutual funds

☐

Treasury bill

☐

provident fund

☐

forward contracts

Question 36. 36.

During 2015, NICO Corporation had EBIT of \$100,000, a change in net fixed assets of \$400,000, an increase in net current assets of \$100,000, an increase in spontaneous current liabilities of \$400,000, a depreciation expense of \$50,000, and a tax rate of 30%. Based on this information, NICO's free cash flow is \_\_\_\_\_.

(Points : 2.5)

☐

-\$630,000

☐

-\$50,000

☐ \$650,000

☐ -\$30,000

Question 37. 37.

If the present value of a perpetual income stream is increasing, the discount rate must be \_\_\_\_\_.

(Points : 2.5)

☐

increasing

☐

decreasing

☐

changing unpredictably

☐

increasing proportionally

Question 38. 38. A firm has the following accounts and financial data for 2014:

Sales revenues: \$3,060

Account receivable: \$500

Interest expenses: \$126

Total operating expenses: \$600

Account payable: \$240

Cost of goods sold: \$1,800

Preferred stock dividends: \$18

Tax rate: 40%

Number of shares of common stock outstanding: 1,000

The firm's net profit after taxes for 2014 is \_\_\_\_\_.

(Points : 2.5)

☐ -\$206.40

☐ \$213.80

☐

☐ \$320.40

☐

☐ \$206.25

Question 39. 39. Retained earnings on the balance sheet represents the \_\_\_\_\_. (Points : 2.5)

☐

☐ net profit after taxes

☐

☐ amount of proceeds in excess of the par value received from the original sale of common stock

☐

☐ net profit after taxes minus preferred dividends

☐

☐ cumulative total of all earnings reinvested in the firm

Question 40. 40. Which of the following is true of risk? (Points : 2.5)

☐ Risk and return are inversely proportionate to each other.

☐ Higher the risk associated with a security the lower is its return.

☐ Risk is a measure of the uncertainty surrounding the return that an investment will earn.

☐ Riskier investments tend to have lower returns as compared to T-bills which are risk free.

Question 41. 41.

The future value of \$100 received today and deposited at 6 percent for four years is \_\_\_\_\_.

(Points : 2.5)

☐ \$126

☐ \$ 79

☐ \$124

☐ \$116

Question 42. 42. A firm has the following accounts and financial data for 2014:

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Interest expenses: \$126

Total operating expenses: \$600  
Account payable: \$240  
Cost of goods sold: \$1,800  
Preferred stock dividends: \$18  
Tax rate: 40%  
Number of shares of common stock outstanding: 1,000

The firm's earnings available to common shareholders for 2014 is \_\_\_\_\_.

(Points : 2.5)

☐ -\$224.25

☐

\$195.40

☐

\$302.40

☐

\$516.60

Question 43. 43.

A beta coefficient of +1 represents an asset that \_\_\_\_\_.

(Points : 2.5)

☐

is more responsive than the market portfolio

☐

has the same response as the market portfolio

☐

is less responsive than the market portfolio

☐

is unaffected by market movement

Question 44. 44.

What is the approximate yield to maturity for a \$1,000 par value bond selling for \$1,120 that matures in 6 years and pays 12 percent interest annually?

(Points : 2.5)

☐

8.5 percent

☐

9.3 percent

☐

12.0 percent

☐

13.2 percent