

## Financial Management

**1.** The field of finance is closely related to the fields of:

- A. statistics and economics
- B. statistics and risk analysis
- C. economics and accounting
- D. accounting and comparative return analysis

View answer

Correct answer: (C)

economics and accounting

**2.** Which of the following properly lists balance sheet items in order of liquidity, from most liquid to least liquid?

- A. Accounts receivable, inventory, marketable securities, cash.
- B. Cash, marketable securities, accounts receivable, inventory.
- C. Inventory, marketable securities, cash, accounts receivable.
- D. Cash, inventory, accounts receivable, marketable securities.

View answer

Correct answer: (B)

Cash, marketable securities, accounts receivable, inventory.

**3.** Amortization is considered a source of funds to the firm because:

- A. it is purely an accounting entry and doesn't involve a direct disbursement of funds, freeing up these funds for other investments
- B. it represents a reduction in asset holdings
- C. it represents an increase in an asset account
- D. amortization is not a source of funds

View answer

Correct answer: (A)

it is purely an accounting entry and doesn't involve a direct disbursement of funds, freeing up these funds for other investments

**4.** Profitability ratios measure:

- A. the speed at which the firm is turning over its assets
- B. the ability of the firm to earn an adequate return on sales, total assets, and invested capital
- C. the firm's ability to pay off short term obligations as they are due
- D. the debt position of the firm in light of its assets and earning power

View answer

Correct answer: (B)

the ability of the firm to earn an adequate return on sales, total assets, and invested capital

**5. Receivables turnover is:**

- A. a profitability ratio
- B. a debt utilization ratio
- C. an asset utilization ratio
- D. a liquidity ratio

View answer

Correct answer: (C)

an asset utilization ratio

**6. Financial ratios are used to:**

- A. weigh and evaluate the operating performance of the firm
- B. provide an absolute benchmark of industry performance
- C. determine which firm will provide the highest return to investors
- D. None of the above are correct

View answer

Correct answer: (A)

weigh and evaluate the operating performance of the firm

**7. The construction of the pro forma income statement is based on:**

- A. the prior year's income statement
- B. sales projections and the production plan
- C. the cash budget
- D. the cash budget and prior year's income statement

View answer

Correct answer: (B)

sales projections and the production plan

**8. The primary purpose of the cash budget is:**

- A. to break the income statement down into monthly periods
- B. to determine monthly cash receipts
- C. to determine the collection pattern
- D. to allow the firm to anticipate the need for outside funding

View answer

Correct answer: (D)

to allow the firm to anticipate the need for outside funding

**9. Operating leverage may be defined as:**

- A. the degree to which debt is used in financing the firm
- B. the difference between price and variable costs
- C. the extent to which capital assets and fixed costs are utilized
- D. the difference between fixed costs and the contribution margin

View answer

Correct answer: (C)

the extent to which capital assets and fixed costs are utilized

**10. Financial leverage:**

- A. reflects the firm's commitment to fixed, financial assets
- B. has no impact on the earning of the firm
- C. reflects the amount of debt used in the capital structure of the firm
- D. primarily affects the left side of the balance sheet

View answer

Correct answer: (C)

reflects the amount of debt used in the capital structure of the firm

**11. Most retail stores are mainly concerned with:**

- A. their buyers' forecasts for the coming season
- B. matching sales and inventory levels
- C. decreasing inventory turnover
- D. their investment in capital assets

View answer

Correct answer: (B)

matching sales and inventory levels

**12. The liquidity premium theory suggests that long-term interest rates are higher than short-term interest rates because:**

- A. investors generally prefer to invest short periods of time
- B. government policy maintains this relationship
- C. there is greater risk in long-term bonds
- D. exchange rate fluctuations establish this relationship

View answer

Correct answer: (C)

there is greater risk in long-term bonds

**13.** Using a lockbox system to improve collections:

- A. is more expensive than the use of collection centers
- B. utilizes local banks to clear local payments made to the collection center
- C. provides more float than collection centers
- D. results in checks being forward to a P.O. box and clearing through local banks

View answer

Correct answer: (D)

results in checks being forward to a P.O. box and clearing through local banks

**14.** All of the following are factors influencing the choice of marketable securities except:

- A. yield
- B. maturity
- C. marketability
- D. maximum investment allowed

View answer

Correct answer: (D)

maximum investment allowed

**15.** In establishing credit standards, the firm must consider the nature of the credit risk based on all of the following, except:

- A. prior record of payment
- B. terms of credit
- C. financial stability
- D. current net worth

View answer

Correct answer: (B)

terms of credit

**16.** A cash discount may best be defined as:

- A. a reduction in price if payment is made within the specified time period
- B. a discount offered to critical suppliers
- C. a discount applied to volume sales
- D. a discount on the repayment of the firm's debt

View answer

Correct answer: (A)

a reduction in price if payment is made within the specified time period

**17.** Commercial paper may best be defined as:

- A. a short term obligation of the government issued to commercial investors
- B. short term unsecured promissory notes issued by corporations
- C. an insignificant source of funds to large corporations
- D. the debt obligations of chartered banks

View answer

Correct answer: (B)

short term unsecured promissory notes issued by corporations

**18.** The extent to which inventory financing may be employed is based on all of the following, except:

- A. the marketability of the pledged goods
- B. their associated price stability of the goods
- C. the perishability of the goods
- D. the control of the goods by the manufacturer

View answer

Correct answer: (D)

the control of the goods by the manufacturer

**19.** If interest or compounding is done on other than an annual basis, adjust by:

- A. dividing the number of years by the number of compounding periods
- B. multiplying the number of years by the number of compounding periods
- C. dividing the interest rate by the number of compounding period
- D. multiplying the years and dividing the interest rate by the number of compounding periods

View answer

Correct answer: (D)

multiplying the years and dividing the interest rate by the number of compounding periods

**20.** Annuity payments are generally assumed to occur:

- A. during the period
- B. at the beginning of the period
- C. at the end of the period

D. it doesn't matter when they occur

View answer

Correct answer: (C)

at the end of the period

[Previous](#)

Page 2 of 78

**21.** The valuation of a financial asset is based on determining:

- A. the present value of future cash flows
- B. the current yield to maturity on long term corporate bonds
- C. the capital budgeting process
- D. what the corporation is paying to attract preferred shareholders

View answer

Correct answer: (A)

the present value of future cash flows

**22.** When the coupon rate on a bond is equal to the yield to maturity, the price of the bond will be:

- A. par
- B. above par
- C. below par
- D. more information is required

View answer

Correct answer: (A)

par

**23.** To determine the price of preferred stock:

- A. divide the rate of return by the dividend amount
- B. divide the dividend amount by the rate of return
- C. divide the dividend amount by the rate of return minus the growth rate
- D. divide the dividend amount by the growth rate

View answer

Correct answer: (B)

divide the dividend amount by the rate of return

**24.** One assumption underlying the use of the cost of capital to analyze capital projects is that:

- A. current costs will remain the same
- B. capital structure will vary with the type of financing
- C. different risk projects are required to diversify the firm
- D. the analyzed projects are of comparable risk to existing projects

View answer

Correct answer: (D)

the analyzed projects are of comparable risk to existing projects

**25.** The cost of retained earnings is equal to:

- A. the return on new common stock
- B. the return on preferred stock
- C. the return on existing common stock
- D. It does not have a cost.

View answer

Correct answer: (C)

the return on existing common stock

**26.** The capital budgeting decision involves the planning of expenditures for projects with a life of at least:

- A. one year
- B. five years
- C. ten years
- D. fifteen years

View answer

Correct answer: (A)

one year

**27.** Under the payback period:

- A. we compute the time required to recoup the original investment
- B. there is no consideration of inflows after the cutoff period
- C. the time value of money is ignored
- D. all of the above are correct

View answer

Correct answer: (D)

all of the above are correct

**28.** All of the following are true of capital cost allowance except:

- A. it is a non-cash expense
- B. it is not tax-deductible
- C. it provides tax shield benefits
- D. it should not be disregarded in capital budgeting decisions

View answer

Correct answer: (B)

it is not tax-deductible

**29.** The standard deviation:

- A. is the square root of the variance
- B. measures dispersion or variability around the expected value
- C. may be used to compare investments with the same expected return
- D. all of the above are correct

View answer

Correct answer: (D)

all of the above are correct

**30.** The efficient frontier represents:

- A. the difference between investment returns
- B. optimal risk-return tradeoffs
- C. the correct investment for all firms to make
- D. the correlation between profits and the portfolio effect

View answer

Correct answer: (B)

optimal risk-return tradeoffs

[Previous](#)

Page 3 of 78

**31.** Which of the following constitutes an internal source of funds:

- A. corporate bonds
- B. common stock
- C. commercial paper
- D. retained earnings and amortization cash flow

View answer

Correct answer: (D)

retained earnings and amortization cash flow



**32.** It would be fair to say that securities markets in the future:

- A. will become more competitive as an international market system develops
- B. will be less efficient
- C. will be more highly segregated than they are today
- D. will be less automated than today's markets

View answer

Correct answer: (A)

will become more competitive as an international market system develops

**33.** The spread may best be defined as:

- A. the compensation due the lead underwriter
- B. the total compensation for those participating in the distribution process
- C. the price finally paid by the public for the shares
- D. the proceeds from the distribution received by the firm

View answer

Correct answer: (B)

the total compensation for those participating in the distribution process

**34.** Private placement involves selling securities directly to:

- A. insurance companies
- B. pension funds
- C. wealthy individuals
- D. all of the above are correct

View answer

Correct answer: (D)

all of the above are correct

**35.** Debt that is not secured by specific assets is called:

- A. an indenture
- B. a debenture
- C. a mortgage agreement
- D. common stock

View answer

Correct answer: (B)

a debenture

**36.** In a lease versus borrow to purchase decision the appropriate discount rate, except for the salvage value, is:

- A. the cost of capital
- B. the aftertax cost of debt
- C. the cost of equity capital
- D. the cost of the debt

View answer

Correct answer: (B)

the aftertax cost of debt

**37.** Preferred equity has all of the following characteristics except:

- A. fixed dividends
- B. the cumulative right to annual dividends
- C. precedence over common stock dividends
- D. residual claim to income

View answer

Correct answer: (D)

residual claim to income

**38.** Under the marginal principle of retained earnings:

- A. the firm must compare what it can earn with what shareholders could earn on funds if they were distributed
- B. all funds above and beyond retained earnings are paid to shareholders
- C. funds not paid to creditors and preferred shareholders belong to common shareholders
- D. all projects are financed internally

View answer

Correct answer: (A)

the firm must compare what it can earn with what shareholders could earn on funds if they were distributed

**39.** A stock dividend:

- A. represents a distribution of additional shares to common shareholders
- B. differs from a stock split largely in size
- C. normally has no real value to the investor
- D. all of the above are correct

View answer

Correct answer: (D)  
all of the above are correct

**40.** A convertible security is:

- A. convertible into cash at the option of the holder
- B. a bond or share of preferred, convertible into common at the firm's option
- C. a bond or share of preferred, convertible into common at the holders' option
- D. a security convertible into a debenture at the holder's option

View answer

Correct answer: (C)  
a bond or share of preferred, convertible into common at the holders' option

[Previous](#)

Page 4 of 78

**41.** The first area of study to benefit from the focus in the 1950's to a more analytical, decision oriented approach was:

- A. cash and inventory management
- B. capital budgeting (allocating financial capital to the purchase of plant and equipment)
- C. capital structure formulation (the balance between liabilities and equity)
- D. dividend policy (the relationship between dividends and earnings)

View answer

Correct answer: (B)  
capital budgeting (allocating financial capital to the purchase of plant and equipment)

**42.** Agency theory examines the:

- A. relationship between the owners and managers of the firm
- B. insurability of the firm's assets
- C. relationship between dividend policy and firm value
- D. value of the firm relative to other firms in the industry

View answer

Correct answer: (A)  
relationship between the owners and managers of the firm

**43.** A corporation will typically pay moderate dividends in:

- A. Development-Stage I

- B. Growth-Stage II
- C. Expansion-Stage III
- D. Maturity-Stage IV

View answer

Correct answer: (C)

Expansion-Stage III

**44.** The balance sheet of the firm shows:

- A. the profitability of the firm over time
- B. the holdings and obligations of the firm
- C. the assets of the firm on a current cost basis
- D. the receipt and disbursement of corporate funds

View answer

Correct answer: (B)

the holdings and obligations of the firm

**45.** The statement of cash flows:

- A. measures changes in net income over time
- B. the receipt and disbursement of funds of the firm
- C. the assets of the firm and the means by which they are financed
- D. emphasizes the critical nature of the firm's cash flows

View answer

Correct answer: (D)

emphasizes the critical nature of the firm's cash flows

**46.** To an economist, the term income means:

- A. sales-cost of goods sold
- B. change in real worth taking place between the beginning and each of a period
- C. operating profit-interest expense
- D. earnings after taxes

View answer

Correct answer: (B)

change in real worth taking place between the beginning and each of a period

**47.** Under the Du Pont method of analysis, return on total assets is:

- A. profit margin times assets turnover
- B. net income/total assets

- C. income before interest and taxes (EBIT)/total assets
- D. net income/sales

View answer

Correct answer: (B)

net income/total assets

**48.** To the securities analyst, the most important ratio group is:

- A. asset utilization
- B. profitability
- C. liquidity
- D. debt utilization

View answer

Correct answer: (B)

profitability

**49.** Which of the following is not a step in the development of the pro forma income statement?

- A. Establish a sales projection.
- B. Determine a production schedule and associated expenses to determine gross profit.
- C. Determine the cash receipts.
- D. Determine profit by completing the actual pro forma statement.

View answer

Correct answer: (C)

Determine the cash receipts.

**50.** The first step in preparing the pro forma balance sheet is to:

- A. prepare the pro forma income statement
- B. prepare the cash budget
- C. prepare the statement of cash flows
- D. examine the prior period's balance sheet and translate the items through time

View answer

Correct answer: (D)

examine the prior period's balance sheet and translate the items through time

[Previous](#)

**51.** On the pro forma income statement, the increase in retained earnings is derived:

- A. earnings before taxes - taxes
- B. earnings aftertaxes - dividends
- C. operating profit - taxes
- D. operating profit - dividends

View answer

Correct answer: (B)

earnings aftertaxes - dividends

**52.** Most break-even analysis:

- A. is conducted on the basis of cash flows
- B. is theoretical only and has little impact on the firm
- C. excludes fixed costs
- D. is done on the basis of accounting flows

View answer

Correct answer: (D)

is done on the basis of accounting flows

**53.** The indifference point identifies:

- A. equality of impact on eps between two financing plans
- B. equality of impact on EBIT between two financing plans
- C. equality of impact on revenue between two financing plans
- D. equality of impact on number of shares between two financing plans

View answer

Correct answer: (A)

equality of impact on eps between two financing plans

**54.** The key to current asset planning is:

- A. ensuring that the firm remains current on its obligation
- B. maintaining an inventory surplus to ensure liquidity
- C. forecasting sales accurately and matching production with the forecast
- D. maintaining the proper rate of asset growth

View answer

Correct answer: (C)

forecasting sales accurately and matching production with the forecast

**55.** Which of the following would not be important in examining the firm's build-up of accounts receivable/cash/current assets:

- A. sales forecast
- B. cash receipts and cash payments schedules
- C. income statement
- D. a brief cash budget

View answer

Correct answer: (C)

income statement

**56.** An inverted yield curve often foreshadows:

- A. an inflationary period
- B. a recessionary period
- C. a large government bond issue
- D. nothing at all

View answer

Correct answer: (B)

a recessionary period

**57.** If a firm has an average daily remittance of \$4,000,000 and 1.5 days in the collection process may be saved through a lockbox system, has the firm freed up any real funds for other investment?

- A. No, these funds are theoretical in nature only
- B. Yes, approximately \$2,666,667 has been freed up
- C. Yes, approximately \$6,000,000 has been freed up
- D. Cannot be determined from information provided

View answer

Correct answer: (C)

Yes, approximately \$6,000,000 has been freed up

**58.** The level of accounts receivable for the firm:

- A. should be judged based on historical standards of industry norms
- B. should be judged as to whether the return earned on A/R equals or exceeds the potential gain from other investments
- C. is irrelevant as long as sales are increasing
- D. is not the concern of the financial manager

View answer

Correct answer: (B)

should be judged as to whether the return earned on A/R equals or exceeds the potential gain from other investments

**59.** The net credit position of the firm is defined as:

- A. its credit rating
- B. the extent to which the firm has utilized its credit line
- C. the difference between short and long term debt
- D. the difference between accounts receivable and accounts payable

View answer

Correct answer: (D)

the difference between accounts receivable and accounts payable

**60.** The major disadvantage of commercial paper is:

- A. the continued availability of funds is less certain than with bank financing
- B. that there is no secondary market for commercial paper
- C. firms must maintain an account balance equal to the paper outstanding
- D. commercial paper is normally issued with a floating interest rate

View answer

Correct answer: (A)

the continued availability of funds is less certain than with bank financing

[Previous](#)

Page 6 of 78

**61.** The interest rate used in time value of money calculations is also referred to as:

- A. a discount rate, rate of return or yield
- B. a discount rate, accounting return or yield
- C. a compound rate, rate of return or market return
- D. a compound rate, accounting return, or yield

View answer

Correct answer: (A)

a discount rate, rate of return or yield

**62.** The value in five years of a stream of payments received over the five year period is known as:

- A. future value-annuity
- B. present value-annuity



- C. compound sum-single amount
- D. present value-single amount

View answer

Correct answer: (A)

future value-annuity

**63.** A payoff schedule for a loan is known as:

- A. a mortgage
- B. an interest schedule
- C. a principal
- D. an amortization schedule

View answer

Correct answer: (D)

an amortization schedule

**64.** The interest rate used to discount the cash flows associated with a bond is:

- A. the required rate of return on the firm's equity
- B. the yield to maturity
- C. the prime rate
- D. the government T-bill rate

View answer

Correct answer: (B)

the yield to maturity

**65.** If the yield to maturity changes, the effect will be greatest on:

- A. long term bonds
- B. short term bonds
- C. government bonds
- D. the effect will be the same for all bonds

View answer

Correct answer: (A)

long term bonds

**66.** The value of a share of common stock may be thought of as:

- A. a perpetuity
- B. an annuity
- C. the present value of a perpetuity

D. the present value of expected future dividends

View answer

Correct answer: (D)

the present value of expected future dividends

**67.** The cost of debt is measured by:

- A. the yield to maturity on the firm's bonds
- B. the coupon rate on the firm's bonds
- C. the weighted average cost of capital
- D. the marginal cost of capital

View answer

Correct answer: (A)

the yield to maturity on the firm's bonds

**68.** The least expensive form of financing for the firm is:

- A. existing common stock
- B. preferred stock
- C. debt
- D. new common stock

View answer

Correct answer: (C)

debt

**69.** As more and more funds are required by the firm, the cost of each component of the capital structure may increase. These incremental changes are most correctly referred to as:

- A. the weighted average cost of capital
- B. the marginal cost of capital
- C. the cost of capital
- D. the incremental cost of capital

View answer

Correct answer: (B)

the marginal cost of capital

**70.** All of the following are widely used methods for evaluating capital expenditures except;

- A. payback period

- B. internal rate of return
- C. net present value
- D. weighted average cost of capital

View answer

Correct answer: (D)

weighted average cost of capital

[Previous](#)

Page 7 of 78

**71.** All of the following are true regarding capital rationing except:

- A. it places on artificial constraint on funds that many be invested
- B. it may result out of a fear of growth
- C. it may result out of a hesitation to use external sources of funds
- D. it will help the overall profitability of the firms

View answer

Correct answer: (D)

it will help the overall profitability of the firms

**72.** The expected value may be defined as:

- A. a weighted average of outcomes times their probability
- B. the arithmetic average of the outcomes
- C. the median value of the possible outcomes
- D. a measure of dispersion or variability

View answer

Correct answer: (A)

a weighted average of outcomes times their probability

**73.** The key to simulation analysis has been:

- A. statistical analysis
- B. the development of the computer
- C. risk adjusted interest rates
- D. the ability to classify investments as to their risk class

View answer

Correct answer: (B)

the development of the computer

**74.** Markets comprised of securities with maturities of one year or less are generally referred to as:

- A. money markets
- B. capital markets
- C. stock markets
- D. bond markets

View answer

Correct answer: (A)

money markets

**75.** A major disadvantage of preferred stock is:

- A. common stock dividends have a higher order of precedence
- B. dividends are not tax-deductible
- C. there is no secondary market for preferred stock
- D. the preferred dividend may vary greatly year to year

View answer

Correct answer: (B)

dividends are not tax-deductible

**76.** Organized securities markets exhibit all of the following characteristics except:

- A. listings on national and regional exchanges are mutually exclusive
- B. each exchange has a central location where buying and selling occurs
- C. brokers represent the actual buyers and sellers
- D. securities are listed and traded with the approval of the board of governors

View answer

Correct answer: (A)

listings on national and regional exchanges are mutually exclusive

**77.** All of the following influence the price of a stock for the firm going public by way of an IPO except:

- A. the previous share price
- B. an in-depth company analysis
- C. the P/E ratio for similar firms in the industry
- D. anticipated public demand

View answer

Correct answer: (A)

the previous share price

**78.** Going public offers the firm many of the advantages listed below with the exception of:

- A. security markets may be tapped for a greater amount of funds
- B. the prestige of a public security may help in bank negotiations
- C. marketable securities may be used for acquisitions
- D. there is less pressure for short-term profits

View answer

Correct answer: (D)

there is less pressure for short-term profits

**79.** With a secured claim:

- A. specific assets are pledged in the event of default
- B. a debenture exists
- C. the lower the value of the initial security
- D. pledged assets are often sold off and the proceeds distributed

View answer

Correct answer: (A)

specific assets are pledged in the event of default

**80.** Which of the following is a benefit of debt to the firm:

- A. interest and principal obligations are contractually set
- B. interest payments are tax deductible
- C. indenture agreements provide the firm with no restrictions
- D. used beyond a certain point, debt will decrease the cost of capital

View answer

Correct answer: (B)

interest payments are tax deductible

[Previous](#)

Page 8 of 78

**81.** Under a pre-emptive right provision:

- A. holders of common stock must be given the first option to purchase new shares
- B. common shareholders have a pre-emptive right to dividends
- C. preferred shareholders have the first option on new common shares
- D. dilution of existing positions is encouraged

View answer

Correct answer: (A)

holders of common stock must be given the first option to purchase new shares

**82.** A preferred issue carrying a call provision will carry:

- A. a higher yield than non-callable preferred
- B. a lower yield than non-callable preferred
- C. the same yield as non-callable preferred
- D. the same yield as callable debt

View answer

Correct answer: (A)

a higher yield than non-callable preferred

**83.** Wealthier shareholders tend to prefer:

- A. a high dividend payout ratio
- B. short term capital gains
- C. floating rate dividends
- D. capital appreciation

View answer

Correct answer: (D)

capital appreciation

**84.** In chronological order, which of the following is correct: Refer to text page 703.

- A. ex-dividend date, holder of record date, payment date
- B. holder of record date, ex-dividend date, holder of record date
- C. payment date, ex-dividend date, holder of record date
- D. holder of record date, payment date, ex-dividend date

View answer

Correct answer: (A)

ex-dividend date, holder of record date, payment date

**85.** The conversion ratio indicates:

- A. the number of shares of common to which the security may be converted
- B. the conversion price of the security
- C. the number of bonds the common share may be converted to
- D. the number of bonds the preferred share may be converted to

View answer

Correct answer: (A)

the number of shares of common to which the security may be converted

**86.** A warrant may best be defined as:

- A. an option to sell a specified number of shares at a stated price
- B. an option to buy a stated number of shares at a stated price
- C. a convertible security
- D. a bond derivative

View answer

Correct answer: (B)

an option to buy a stated number of shares at a stated price

**87.** Which of the following is not a non-financial motive for merging:

- A. the desire to expand management capabilities
- B. the need to expand marketing capabilities
- C. the desire for easier access to capital markets
- D. the acquisition of new products

View answer

Correct answer: (C)

the desire for easier access to capital markets

**88.** If a firm acquires another firm with a higher P/E ratio:

- A. postmerger earnings per share will be diluted
- B. a cash acquisition is questionable
- C. a stock-for-stock exchange should be pursued
- D. none of the above are correct

View answer

Correct answer: (C)

a stock-for-stock exchange should be pursued

**89.** The arrangement preferred by most business firms and foreign government is:

- A. the joint venture
- B. the export arrangement
- C. the licensing agreement
- D. the fully owned foreign subsidiary

View answer

Correct answer: (A)  
the joint venture

**90.** The spot rate is:

- A. unrelated to the foreign exchange rate
- B. the rate of exchange for future delivery
- C. the rate of exchange for immediate delivery
- D. the "black market" exchange rate

View answer

Correct answer: (C)  
the rate of exchange for immediate delivery

**91.** To minimize transaction exposure, firms may pursue which of the following activities:

- A. forward exchange market hedging
- B. money market hedging
- C. currency futures market hedging
- D. all of the above are correct.

View answer

Correct answer: (D)  
all of the above are correct.

**92.** The ultimate measure of performance is:

- A. the amount of the firm's earnings
- B. how the earnings are valued by the investor
- C. the firm's profit margin
- D. return on the firm's total assets

View answer

Correct answer: (B)  
how the earnings are valued by the investor

**93.** Financial markets:

- A. exist as a vast global network of individuals and financial institutions
- B. include a broad group representing lenders, borrowers, owners, institutional investors, corporations, government units and others
- C. circulate information quickly that affects prices of securities
- D. all of the above



View answer

Correct answer: (D)

all of the above

**94.** The income statement measures:

- A. what the firm owns and how those assets are financed
- B. the profitability of the firm at a given point in time
- C. the profitability of the firm over a period of time
- D. how changes in the balance sheet are financed over time

View answer

Correct answer: (C)

the profitability of the firm over a period of time

**95.** All of the following are examples of tax deductible expenses, except:

- A. dividends on common shares
- B. interest payments
- C. amortization charges
- D. sales and administrative expenses

View answer

Correct answer: (A)

dividends on common shares

**96.** Which of the following is not the responsibility of financial management?

- A. allocation of funds to current and capital assets
- B. obtaining the best mix of financing alternatives
- C. preparation of the firm's accounting statements
- D. development of an appropriate dividend policy

View answer

Correct answer: (C)

preparation of the firm's accounting statements

**97.** The allocation of capital is determined by:

- A. expected rates of return
- B. the Bank of Canada
- C. the initial sale of securities in the primary market
- D. the size of the federal debt

View answer

Correct answer: (A)  
expected rates of return

**98.** All of the following are true of shareholders' equity except:

- A. it represents the combined total of the firm's current and long term assets
- B. it represents the total contribution and ownership interest of preferred and common shareholders
- C. the three basic components are preferred stock, common stock, and retained earnings
- D. it represents the difference between the firm's assets and liabilities

View answer

Correct answer: (A)

it represents the combined total of the firm's current and long term assets

**99.** Asset utilization ratios measure:

- A. the speed at which the firm is turning over its assets
- B. the ability of the firm to earn an adequate return on sales, total assets, and invested capital
- C. the firm's ability to pay off short term obligations as they are due
- D. the debt position of the firm in light of its assets and earning power

View answer

Correct answer: (A)

the speed at which the firm is turning over its assets

**100.** Among the liquidity ratios, one would include:

- A. receivables turnover and inventory turnover
- B. current ratio and quick ratio
- C. capital asset turnover and total asset turnover
- D. receivables turnover and total asset turnover

View answer

Correct answer: (B)

current ratio and quick ratio

**101.** To the bondholder, the most important ratio is:

- A. profit margin
- B. quick ratio
- C. times interest earned
- D. debt to total assets

View answer

Correct answer: (D)  
debt to total assets

**102.** In preparing the pro forma balance sheet, all of the following will normally remain unchanged from the prior period except:

- A. accounts receivable
- B. marketable securities
- C. long term debt
- D. common stock

View answer

Correct answer: (A)  
accounts receivable

**103.** The conservative firm will utilize:

- A. a high degree of operating leverage
- B. a low degree of operating leverage
- C. high fixed costs
- D. a higher profit margin

View answer

Correct answer: (B)  
a low degree of operating leverage

**104.** The degree of financial leverage may be defined as:

- A. percent change in sales/percent change in volume
- B. percent change in EPS/percent change in net income
- C. percent change in EPS/percent change in EBIT
- D. percent change in EPS/percent change in sales

View answer

Correct answer: (C)  
percent change in EPS/percent change in EBIT

**105.** To enhance overall operating results, a firm should prudently use which of the following:

- A. operating leverage
- B. financial leverage
- C. combined leverage
- D. conservative leverage

View answer

Correct answer: (C)  
combined leverage

**106.** A major advantage of using short term funds is:

- A. there is no advantage
- B. there are always more easily obtained
- C. there are no governmental procedures with which to comply
- D. interest rates are normally lower

View answer

Correct answer: (D)  
interest rates are normally lower

**107.** A collection center:

- A. involves using geographically disbursed centers to collect from non-paying customers
- B. utilizes local banks to clear local payments made to the collection center
- C. is lower in cost to the firm than a lockbox system
- D. results in checks being forwarded to a P.O. box and clearing through local bank branches

View answer

Correct answer: (B)  
utilizes local banks to clear local payments made to the collection center

**108.** In monitoring collection policy, the firm should look at all of the following, except:

- A. average collection period
- B. ratio of bad debts to credit sales
- C. aging of accounts receivable
- D. terms of credit

View answer

Correct answer: (D)  
terms of credit

**109.** In return for providing loans and other services, banks may require that business customers maintain

- A. a specified profit margin
- B. a compensating balance
- C. a sinking fund

D. a specified growth rate

View answer

Correct answer: (B)

a compensating balance

**110.** Characteristics of pledging accounts receivable include all of the following, except:

- A. the sale of receivables to a finance company
- B. the lender stipulates which accounts are of sufficient quality
- C. 60-80% of the value of the acceptable collateral may be borrowed
- D. the interest rate is normally well in excess of prime

View answer

Correct answer: (A)

the sale of receivables to a finance company

**111.** The value today of an amount to be received at some point in the future is known as:

- A. present value-annuity
- B. future value-annuity
- C. present value-single amount
- D. future value-single amount

View answer

Correct answer: (C)

present value-single amount

**112.** A series of payments required to accumulate a given amount is known as:

- A. future value-annuity
- B. present value-annuity
- C. annuity equalling a future amount
- D. annuity equalling a present amount

View answer

Correct answer: (C)

annuity equalling a future amount

**113.** Financial risk relates to:

- A. the ability of the firm to pay dividends
- B. the ability of the firm to access capital markets for additional funds

- C. the ability of the firm to meet debt obligations as they come due
- D. the firm's financial risk premium

View answer

Correct answer: (C)

the ability of the firm to meet debt obligations as they come due

**114.** The beta coefficient measures:

- A. the return relative to the risk-free rate
- B. the return relative to the market return
- C. the historical volatility relative to the market's volatility
- D. the required return on a financial asset

View answer

Correct answer: (C)

the historical volatility relative to the market's volatility

**115.** All of the following are steps in the decision-making process of a good capital budgeting process except:

- A. obtaining the necessary financing
- B. collection of data
- C. evaluation and decision making
- D. re-evaluation and adjustment

View answer

Correct answer: (A)

obtaining the necessary financing

**116.** Under the net present value method:

- A. the interest rate is determined that equates inflows and outflows
- B. the time value of money is not taken into account
- C. inflows are discounted back to determine if they exceed outflows
- D. the basic discount rate is the internal rate of return

View answer

Correct answer: (C)

inflows are discounted back to determine if they exceed outflows

**117.** Risk in capital budgeting may be defined as:

- A. the chance the firm won't be able to meet its debt obligations
- B. the possibility of the firm losing its competitive position

- C. the variability of possible outcomes from a given investment
- D. the possibility that the firm can't obtain funds needed to finance the desired asset

View answer

Correct answer: (C)

the variability of possible outcomes from a given investment

**118.** All methods used in evaluating risk in capital budgeting have one thing in common:

- A. they use the coefficient of variation to determine the discount rate
- B. risk classes are used to determine discount rates
- C. they use computer-based statistical analysis
- D. they recognize the differences in risk levels and adjust for them

View answer

Correct answer: (D)

they recognize the differences in risk levels and adjust for them

**119.** In recent years Government of Canada funding requirements have:

- A. increased and become more short term
- B. increased and become more long term
- C. decreased and become more short term
- D. decreased and become more long term

View answer

Correct answer: (D)

decreased and become more long term

**120.** Nonresident holdings of Canadian securities are most significant in the:

- A. bond market
- B. money market
- C. stock market
- D. mortgage market

View answer

Correct answer: (A)

bond market

**121.** The main function of the investment dealer is to serve as:

- A. the middleperson between the firm in need of funds and investors

- B. underwriter
- C. an advisor to the firm
- D. a market maker

View answer

Correct answer: (A)

the middleperson between the firm in need of funds and investors

**122.** All of the following are characteristics of private placements except:

- A. there are no securities commission filing requirements
- B. there is less flexibility for the firm
- C. initial costs may be lower than with a public issue
- D. the interest rate is usually higher due to lower liquidity

View answer

Correct answer: (B)

there is less flexibility for the firm

**123.** The coupon rate on a bond is:

- A. the initial or face value of the bond
- B. the yield to maturity
- C. the rate at which the principal of the bond accrues
- D. the stated interest rate of the bond

View answer

Correct answer: (D)

the stated interest rate of the bond

**124.** Bonds are rated based on all of the following criteria except:

- A. ability to make interest payments
- B. consistency of performance
- C. debt-equity ratio
- D. nominal yield

View answer

Correct answer: (D)

nominal yield

**125.** As the owners of the firm, common shareholders:

- A. have a primary claim on earnings
- B. have the right to vote on all important corporate issues



- C. have a legally enforceable right to dividends
- D. play a secondary role in financing the firm

View answer

Correct answer: (B)

have the right to vote on all important corporate issues

**126.** Dividends may be considered relevant because:

- A. they increase the investor's overall return
- B. a higher return will be earned than with retained earnings
- C. they are preferred by investors in higher tax brackets
- D. they resolve uncertainty in the minds of investors

View answer

Correct answer: (D)

they resolve uncertainty in the minds of investors

**127.** All of the following are characteristics of the expansion stage of corporate growth except:

- A. sales expansion continues, but at a decreasing rate
- B. returns on investment decline
- C. the asset expansion rate increases
- D. the firm is better able to pay higher cash dividends

View answer

Correct answer: (C)

the asset expansion rate increases

**128.** The purchaser or holder of a call option has:

- A. the obligation to sell the underlying security
- B. the obligation to buy the underlying security
- C. the right but not the obligation to sell the underlying security
- D. the right but not the obligation to buy the underlying security

View answer

Correct answer: (D)

the right but not the obligation to buy the underlying security

**129.** If a bond with a face value of \$1,000, coupon rate and yield to maturity of 8%, and conversion ratio of 20, sees a drop in the common price to 25, the value of the security will be:

- A. \$500
- B. greater than \$1,000
- C. less than \$1,000
- D. \$1,000

View answer

Correct answer: (D)

\$1,000

**130.** All of the following are characteristics of the 1990s mergers and divestitures except:

- A. mergers between entertainment firms was popular
- B. mergers between financial services firms was also common
- C. the federal government was active in divesting crown corporations
- D. high interest rates made mergers more costly than in the 1970s and 1980s

View answer

Correct answer: (D)

high interest rates made mergers more costly than in the 1970s and 1980s

**131.** The main focus of a stock-for-stock exchange is on:

- A. the earnings per share impact of the exchange
- B. the capital budgeting implications
- C. the shareholders of the acquired firms
- D. the growth opportunities

View answer

Correct answer: (A)

the earnings per share impact of the exchange

**132.** On the books of the acquiring firm, a merger may be treated as:

- A. a cash purchase or a pooling of interests
- B. a stock-for-stock exchange
- C. a purchase of assets
- D. a pooling of interests or a purchase of assets

View answer

Correct answer: (D)

a pooling of interests or a purchase of assets

**133.** Fundamental factors influencing exchange rates include:

- A. inflation, government policies, translation exposure
- B. interest rates, government policies, and expropriation
- C. balance of payments, spot rates, and expropriation
- D. government policies, balance of payments, inflation

View answer

Correct answer: (D)

government policies, balance of payments, inflation

**134.** Foreign exchange risk may be best defined as:

- A. the chance of value change in foreign exchange rates
- B. the chance that the demand for your currency will drop
- C. the chance that exchange rates will be fixed
- D. the political risk posed by foreign governments

View answer

Correct answer: (A)

the chance of value change in foreign exchange rates

**135.** Which of the following are not among the daily activities of financial management?

- A. sale of stocks and bonds
- B. credit management
- C. inventory control
- D. the receipt and disbursement of funds

View answer

Correct answer: (A)

sale of stocks and bonds

**136.** The mix of debt and equity in a firm is referred to as the firm's:

- A. primary capital
- B. capital composition
- C. cost of capital
- D. capital structure

View answer

Correct answer: (D)

capital structure

**137.** All of the following are decisions heavily impacted by federal income tax considerations except:

- A. lease versus purchase decisions
- B. the issuance of common shares versus debt
- C. cash budgeting and dividend policy decisions
- D. the decision to replace on asset

View answer

Correct answer: (C)

cash budgeting and dividend policy decisions

**138.** Debt utilization ratios measure:

- A. the speed at which the firm is turning over its assets
- B. the ability of the firm to earn an adequate return on sales, total assets, and invested capital
- C. the firm's ability to pay off short term obligations as they are due
- D. the debt position of the firm in light of its assets and earning power

View answer

Correct answer: (D)

the debt position of the firm in light of its assets and earning power

**139.** Analyzing the performance of the firm through ratios over a number of years is referred to as:

- A. financial analysis
- B. ratio analysis
- C. trend analysis
- D. operations analysis

View answer

Correct answer: (C)

trend analysis

**140.** In order to determine cash receipts, the financial manager must know:

- A. projected sales and the collection pattern
- B. projected sales and the profit margin
- C. gross profit and the collection pattern
- D. gross profit and taxes

View answer

Correct answer: (A)

projected sales and the collection pattern

**141.** Under the percent of sales method, the relationship between sales and what type accounts are assumed to maintain or constant relationship:

- A. income statement
- B. cash budget
- C. balance sheet
- D. cash flows.

View answer

Correct answer: (C)

balance sheet

**142.** A higher degree of financial leverage may be desirable for:

- A. a stable firm, with positive growth, under favorable economic conditions
- B. an unstable firm operating in an uncertain environment
- C. a stable firm operating in an uncertain environment
- D. neither the stable nor unstable firm under any circumstances

View answer

Correct answer: (A)

a stable firm, with positive growth, under favorable economic conditions

**143.** In designing working capital policy, the financial manager is concerned with yield curve and:

- A. dividend policy
- B. balance of trade figures
- C. the relative volatility of short and long term rates
- D. the term structure of interest rates

View answer

Correct answer: (C)

the relative volatility of short and long term rates

**144.** Treasury bills are:

- A. government obligations with a maturity of 3-5 years
- B. sold at a discount to face value
- C. the only government security that pays cash dividends
- D. extremely illiquid, although extremely safe

View answer

Correct answer: (B)

sold at a discount to face value

**145.** As the least liquid of the current assets, inventory:

- A. could technically be classified as a capital asset and amortized
- B. should be managed using level production
- C. should be managed using seasonal production
- D. should provide the highest yield to justify investment

View answer

Correct answer: (D)

should provide the highest yield to justify investment

**146.** All of the following are characteristics of the term loan, except:

- A. credit is extended for one to seven years
- B. the loan is repaid in one lump sum at maturity
- C. only superior credit applicants qualify
- D. interest rates may commonly change with market conditions

View answer

Correct answer: (B)

the loan is repaid in one lump sum at maturity

**147.** Future value of an amount allowed to grow at a given interest rate over a period of time is known as the:

- A. future value-single amount
- B. present value-single amount
- C. future value-annuity
- D. present value-annuity

View answer

Correct answer: (A)

future value-single amount

**148.** Canadian mortgages have interest compounded:

- A. annually
- B. semiannually
- C. monthly
- D. it depends on the payment period

View answer

Correct answer: (B)

semiannually

**149.** Business risk relates to:

- A. the ability of the firm to hold its competitive position
- B. the ability of the firm to maintain growth in its earnings
- C. the ability of the firm to maintain stability in the earnings
- D. all of the above are correct

View answer

Correct answer: (D)

all of the above are correct

**150.** The required rate of return on an equity investment can be determined by:

- A. the P/E yield plus the growth rate
- B. the dividend yield plus the growth rate
- C. the earnings yield
- D. the revenue growth rate

View answer

Correct answer: (B)

the dividend yield plus the growth rate

**151.** In determining the appropriate capital mix, the starting point for the firm is:

- A. the cost of common equity
- B. the optimum capital structure
- C. the present capital structure
- D. the after-tax cost of debt

View answer

Correct answer: (C)

the present capital structure

**152.** In most capital budgeting decisions, the emphasis is on:

- A. reported income
- B. cash flows
- C. short-term profits
- D. maximization of shareholder wealth

View answer

Correct answer: (B)

cash flows

**153.** The basic discount rate used in net present value analysis is:

- A. the internal rate of return
- B. the cost of common equity
- C. the net discount rate
- D. the cost of capital to the firm

View answer

Correct answer: (D)

the cost of capital to the firm

**154.** In a replacement decision, all of the following should be considered except:

- A. the cost of the new equipment
- B. interest costs
- C. the capital loss or gain on the sale of the old equipment
- D. the difference in capital cost allowance tax shields between the old and new equipment

View answer

Correct answer: (B)

interest costs

**155.** All of the following are true regarding beta except:

- A. it is widely used with portfolios of common stock
- B. it measures the volatility of returns relative to the expected value
- C. it is an important component of the Capital Asset Pricing Model (CAPM)
- D. the higher the beta, the greater the risk level

View answer

Correct answer: (B)

it measures the volatility of returns relative to the expected value

**156.** A decision tree analysis:

- A. lays out the sequence of decisions and presents a graphical comparison
- B. is a form of simulation analysis
- C. tends to be more accurate than simulation techniques
- D. should be utilized as the sole input for the decision making process

View answer

Correct answer: (A)

lays out the sequence of decisions and presents a graphical comparison

**157.** Markets comprised of securities with maturities greater than one year are generally referred to as:



- A. money markets
- B. capital markets
- C. stock markets
- D. bond market

View answer

Correct answer: (B)  
capital markets

**158.** Markets may be said to be efficient when:

- A. prices adjust rapidly to new information
- B. there is a continuous market with successive trade at widely varying prices
- C. the market absorbs only small dollar amounts without destabilizing prices
- D. all of the above are correct

View answer

Correct answer: (D)  
all of the above are correct

**159.** The main organization used in distributing securities is:

- A. the stock market
- B. the underwriting syndicate
- C. the primary market
- D. the secondary market

View answer

Correct answer: (B)  
the underwriting syndicate

**160.** The major problem when a public firm issues new stock is:

- A. pricing the security
- B. underwriting the issue
- C. determining the spread
- D. the dilution of existing stock

View answer

Correct answer: (D)  
the dilution of existing stock

**161.** The main pressure on Canadian corporations to raise capital has come from:

- A. shareholder pressure

- B. securities analysts
- C. the expansion of the economy
- D. institutional pressure

View answer

Correct answer: (C)

the expansion of the economy

**162.** A call provision allows the firm to:

- A. call the bond and common stock
- B. redeem bonds prior to the call date
- C. pay a discount 5-10% below par
- D. redeem the bond prior to maturity

View answer

Correct answer: (D)

redeem the bond prior to maturity

**163.** Preferred shareholders:

- A. play a primary role in the financing of the firm
- B. have a subordinated claim to dividends
- C. possess an ownership interest in the firm
- D. normally have no vote on corporate issues

View answer

Correct answer: (D)

normally have no vote on corporate issues

**164.** When a rights offering is announced:

- A. common shareholders may purchase one new share for each share owned
- B. a stock will initially trade rights-on
- C. the share price increases when the stock goes ex-rights
- D. the shareholder increases the value of his holdings by exercising the rights

View answer

Correct answer: (B)

a stock will initially trade rights-on

**165.** To institutional investors, preferred stock may be very attractive because:

- A. dividend payments are assured
- B. dividends from another corporation are usually tax-exempt

- C. the preferred yield is normally higher than that of debt
- D. it provides balance to the issuing firm's capital structure

View answer

Correct answer: (B)

dividends from another corporation are usually tax-exempt

**166.** By maintaining a relatively stable dividend level, the firm:

- A. hopes to increase holdings of its common shares
- B. hopes to decrease holdings of its common shares
- C. hopes to increase the discount rate applied to future dividends
- D. hopes to decrease the discount rate applied to future dividends

View answer

Correct answer: (D)

hopes to decrease the discount rate applied to future dividends

**167.** If investors are optimistic about expectations for the future performance of the underlying stock of a convertible security:

- A. the conversion premium will be large
- B. the conversion premium will be small
- C. the bond is overpriced
- D. the bond is underpriced

View answer

Correct answer: (A)

the conversion premium will be large

**168.** Convertible securities are subject to all of the following disadvantages except:

- A. interest rates are normally below market rates
- B. the convertible is purchased at a premium
- C. the holder has no downside protection
- D. the convertible may be subject to a call provision

View answer

Correct answer: (C)

the holder has no downside protection

**169.** All of the following are financial motives for mergers except:

- A. the portfolio effect
- B. the dividend effect

- C. improved financing posture
- D. tax loss carry-forwards

View answer

Correct answer: (B)  
the dividend effect

**170.** If the acquiring firm has a higher P/E ratio than the acquired firm, the resulting earnings per share will be:

- A. the same as pre-merger
- B. lower
- C. higher
- D. cannot be determined

View answer

Correct answer: (C)  
higher

**171.** Canadian exporters accounted for what percentage of Canada's total production of goods and services in 1997:

- A. 15%
- B. 25%
- C. 35%
- D. 50%

View answer

Correct answer: (C)  
35%

**172.** The forward rate is:

- A. unrelated to the foreign exchange rate
- B. the rate of exchange for future delivery
- C. the rate of exchange for immediate delivery
- D. the "black market" exchange rate

View answer

Correct answer: (B)  
the rate of exchange for future delivery

**173.** Political risk exposure may be minimized through all of the following except:

- A. joint ventures with local entrepreneurs

- B. joint ventures with firms from the countries
- C. fully owned foreign subsidiaries
- D. obtaining insurance in advance

View answer

Correct answer: (C)

fully owned foreign subsidiaries

**174.** A main benefit to the corporate form of organization is:

- A. double taxation of corporate income
- B. simplicity of decision making and low organizational complexity
- C. limited liability for the corporate shareholders
- D. a major management role exists for the firm's owners

View answer

Correct answer: (D)

limited liability for the corporate shareholders

**175.** The statement of cash flows:

- A. measures changes in net income over time
- B. the receipt and disbursement of funds of the firm
- C. the assets of the firm and the means by which they are financed
- D. emphasizes the critical nature of the firm's cash flows

View answer

Correct answer: (D)

emphasizes the critical nature of the firm's cash flows

**176.** The current cost method of financial reporting takes inflation into account and has the greatest impact on:

- A. the valuation of accounts receivable and marketable securities
- B. inventory and plant and equipment
- C. current assets
- D. the determination of dividend policy

View answer

Correct answer: (B)

inventory and plant and equipment

**177.** To the banker/creditor, the most important ratio group is:

- A. asset utilization

- B. profitability
- C. liquidity
- D. debt utilization

View answer

Correct answer: (C)  
liquidity

**178.** All of the following are primary considerations for cash payments except:

- A. material costs
- B. labour and overhead costs
- C. receivable receipts
- D. disbursements for general & administrative expenses

View answer

Correct answer: (C)  
receivable receipts

**179.** If management of an aggressive firm is apprehensive about economic conditions:

- A. a highly leveraged approach should be maintained
- B. a conservative approach should be implemented
- C. the use of leverage should be tailored to the desired level of risk
- D. the attitude of the firm has no impact

View answer

Correct answer: (B)  
a conservative approach should be implemented

**180.** A high degree of financial leverage:

- A. is a sign of astute financial management
- B. will always decrease the cost of financing for the firm
- C. will result in an increase of the firm's overall value in all cases
- D. may increase the firm's risk and drive the price of the shares down

View answer

Correct answer: (D)  
may increase the firm's risk and drive the price of the shares down

**181.** The cost of capital is:

- A. used as an evaluation tool
- B. based on the present cost obligation's of the firm

- C. the cost of long-term investment
- D. the cost of maintaining the bureaucrats in Ottawa

View answer

Correct answer: (A)

used as an evaluation tool

**182.** A growth firm in a stable industry can normally afford to absorb how much debt relative to a firm in a cyclical industry:

- A. more debt
- B. less debt
- C. about the same amount of debt
- D. cannot be determined

View answer

Correct answer: (A)

more debt

**183.** Financial capital:

- A. appears under liabilities and equity on the corporate income statement
- B. and the optimum capital structure are the same
- C. consists of common stock, preferred stock and retained earnings only
- D. consists of stocks, bonds and retained earnings

View answer

Correct answer: (D)

consists of stocks, bonds and retained earnings

**184.** Perhaps the most important step in the decision making process is:

- A. collection of data
- B. search and discovery of investment opportunities
- C. evaluation and decision making
- D. re-evaluation and adjustment

View answer

Correct answer: (B)

search and discovery of investment opportunities

**185.** The main difficulty in the capital budgeting process is:

- A. determining where we want to be on the risk-return scale
- B. finding viable investment opportunities

- C. determining the appropriate discount rate
- D. maximizing shareholder value

View answer

Correct answer: (A)

determining where we want to be on the risk-return scale

**186.** All of the following are true regarding the use of simulation techniques except:

- A. the computer randomly selects inputs from probability distributions
- B. sensitivity testing allows for the asking of "what if" questions
- C. its applications are limited in the area of capital budgeting
- D. they generate a range of outcomes with standard deviations

View answer

Correct answer: (C)

its applications are limited in the area of capital budgeting

**187.** The major supplier of funds for investment is:

- A. the federal government
- B. provincial and local governments
- C. corporations and other business entities
- D. households

View answer

Correct answer: (D)

households

**188.** The strong form of the efficient market hypothesis states that:

- A. past price information is unrelated to future prices
- B. prices reflect all public information
- C. both public and private information is reflected in security prices
- D. prices reflect all private or inside information

View answer

Correct answer: (C)

both public and private information is reflected in security prices

**189.** When new shares in a public firm are to be issued, the price will normally be established:

- A. at the current market price
- B. slightly above the current market price



- C. slightly below the current market price
- D. at whatever price the market will bear.

View answer

Correct answer: (C)

slightly below the current market price

**190.** Payment to subordinated debenture holders takes place:

- A. prior to payment to secured debt holders
- B. prior to payment to senior debenture holders
- C. after payment of preferred shareholders
- D. after payment to senior debenture holders

View answer

Correct answer: (D)

after payment to senior debenture holders

**191.** In most firms:

- A. capital assets grow at a constant rate
- B. the rate of growth for fixed and current assets remains constant
- C. there is no relationship between the growth rates for fixed and current assets
- D. capital assets grow slowly, while current assets fluctuate

View answer

Correct answer: (D)

capital assets grow slowly, while current assets fluctuate

**192.** The term structure of interest rates:

- A. shows the interest rate pattern for securities of different risks but equal maturities
- B. shows the interest rate patterns for securities of equal risk with different maturities
- C. is normally based on corporate securities
- D. remains constant over time

View answer

Correct answer: (B)

shows the interest rate patterns for securities of equal risk with different maturities

**193.** A firm with heavy risk exposure due to short term borrowing should:

- A. carry a large amount of fixed assets

- B. carry more highly liquid assets
- C. increase production to avoid inventory
- D. prosper in the event of a credit crunch

View answer

Correct answer: (B)

carry more highly liquid assets

**194.** Internationally, a company may primarily prefer to hold cash balances in one currency over another for which of the following reasons:

- A. higher interest rates and a stronger currency relative to others
- B. the firm is headquartered in a particular country
- C. twenty-four hour a day access may be available
- D. there is no real reason to favor one currency over another

View answer

Correct answer: (A)

higher interest rates and a stronger currency relative to others

**195.** The conditions of the terms of credit will have the greatest impact in which area:

- A. the balance sheet
- B. financing costs
- C. accounts receivable
- D. profit margin

View answer

Correct answer: (C)

accounts receivable

**196.** Prime rate may best be defined as:

- A. the rate the bank charges its most credit-worthy customers
- B. the rate charged by the Bank of Canada to chartered banks
- C. the rate paid by Canadian firms for eurodollar funds
- D. the rate paid by firms on long term debt

View answer

Correct answer: (A)

the rate the bank charges its most credit-worthy customers

**197.** A secured credit arrangement:

- A. is never used with short-term funds

- B. is always used with short-term funds
- C. may help a borrower obtain otherwise unavailable funds
- D. is a primary factor in the lender's decision

View answer

Correct answer: (C)

may help a borrower obtain otherwise unavailable funds

**198.** The value today of a stream of payments received over the five year period is known as:

- A. future value-annuity
- B. present value-annuity
- C. compound sum-single amount
- D. present value-single amount

View answer

Correct answer: (B)

present value-annuity

**199.** All of the following factors influence the investor's required rate of return except:

- A. the real required rate of return
- B. the inflation premium
- C. the risk premium
- D. the risk aversion factor

View answer

Correct answer: (D)

the risk aversion factor

**200.** In the "real world," corporate bonds usually pay interest:

- A. continuously
- B. quarterly
- C. semiannually
- D. annually

View answer

Correct answer: (C)

semiannually

**201.** Long term lease obligations are treated as:

- A. items in the footnotes of the financial statements

- B. solely as an expense items on the income statement
- C. in a manner similar to debt on the balance sheet
- D. as an asset to the firm

View answer

Correct answer: (C)

in a manner similar to debt on the balance sheet

**202.** All of the following are advantages of rights offerings except:

- A. the position of current shareholders is protected
- B. a rights offering provides the firm with a built-in securities market
- C. more interest may be generated in the market
- D. the dollar value of rights traded on exchanges is very high

View answer

Correct answer: (D)

the dollar value of rights traded on exchanges is very high

**203.** In terms of increasing risk to the investor, the proper ranking would be:

- A. common stock, preferred stock, secured debt
- B. long-term government debt, subordinated debt, common stock
- C. long-term government debt, secured debt, preferred stock
- D. secured debt, common stock, preferred stock

View answer

Correct answer: (B)

long-term government debt, subordinated debt, common stock

**204.** The directors of a small, closely held corporation may be reluctant to pay dividends at all because:

- A. the dividends will be taxed at a higher rate
- B. they fear diluting the cash position of the firms
- C. they haven't the means to do a complete funds flow analysis
- D. they fear a shareholder proxy battle

View answer

Correct answer: (B)

they fear diluting the cash position of the firms

**205.** A corporation will typically pay the highest dividends in:

- A. Development-Stage I

- B. Growth-Stage II
- C. Expansion-Stage III
- D. Maturity-Stage IV

View answer

Correct answer: (D)

Maturity-Stage IV

**206.** Derivatives are contracts that:

- A. allow the holder to buy/sell a given commodity
- B. are sold only in established financial markets
- C. usually expose the holder to increased risk
- D. completely remove risk in financial and economic transactions

View answer

Correct answer: (A)

allow the holder to buy/sell a given commodity

**207.** A convertible security has:

- A. an upside limitation, but no floor value
- B. no upside limitation, but a floor value
- C. more sensitivity to interest rate movements than regular bonds of equal maturity
- D. a single, fixed yield under all scenario

View answer

Correct answer: (B)

no upside limitation, but a floor value

**208.** The minimum value of a warrant is equal to:

- A. warrant price-intrinsic value
- B. intrinsic value-warrant price
- C. (market value of common stock-warrant exercise price) X number of shares per warrant
- D. the speculative premium

View answer

Correct answer: (C)

(market value of common stock-warrant exercise price) X number of shares per warrant

**209.** Perhaps the greatest management motive for a merger is:

- A. the synergistic effect
- B. new product acquisition
- C. the portfolio effect
- D. tax loss carry-forwards

View answer

Correct answer: (A)

the synergistic effect

**210.** The market for corporate control:

- A. effectively forces managers to strive to maximize shareholder wealth
- B. is best run through a holding company
- C. is a separate market for arbitrageurs
- D. emphasizes the portfolio effect

View answer

Correct answer: (A)

effectively forces managers to strive to maximize shareholder wealth

**211.** The relationship between the values of the two currencies is known as:

- A. the currency rate
- B. the conversion rate
- C. the forward rate
- D. the foreign exchange rate

View answer

Correct answer: (D)

the foreign exchange rate

**212.** Forward and spot transactions take place:

- A. over-the-counter
- B. in the foreign currency exchange
- C. between domestic and foreign governments
- D. between individuals and foreign governments

View answer

Correct answer: (A)

over-the-counter

**213.** Which of the following is not a primary source of international business financing?

- A. The Export Development Bank
- B. The eurobond market
- C. International equity markets
- D. Domestic bond and equity markets

View answer

Correct answer: (D)

Domestic bond and equity markets

**214.** In analyzing the firm, the investor should consider:

- A. the risk inherent in the firm's operation
- B. the time patterns over which the firm's earnings increase/decrease
- C. the quality and reliability of the firm's reported earnings
- D. all of the above should be considered

View answer

Correct answer: (D)

all of the above should be considered

**215.** The main focus of finance for the last 40 years has been:

- A. mergers and acquisitions
- B. conglomerate firms
- C. inflation
- D. risk-return relationships

View answer

Correct answer: (D)

risk-return relationships

**216.** Which of the following is not true regarding the P/E ratio?

- A. It is the multiplier applied to earnings per share to determine current value
- B. P/E ratios allow comparison of the relative market values of many companies based on \$1 of earnings per share.
- C. It indicates expectations about the future of a company.
- D. Firms expected to provide returns greater than those of the market with equal or less risk normally have P/E ratios lower than the market P/E.

View answer

Correct answer: (D)

Firms expected to provide returns greater than those of the market with equal or less risk normally have P/E ratios lower than the market P/E.

**217.** The aftertax cost of a tax deductible expense is:

- A. cost times the tax rate
- B. cost times (1-tax rate)
- C. the cost of the expense
- D. the cost divided by the tax rate

View answer

Correct answer: (B)

cost times (1-tax rate)

**218.** Liquidity ratios measure:

- A. the speed at which the firm is turning over its assets
- B. the ability of the firm to earn an adequate return on sales, total assets, and invested capital
- C. the firm's ability to pay off short term obligations as they are due
- D. the debt position of the firm in light of its assets and earning power.

View answer

Correct answer: (C)

the firm's ability to pay off short term obligations as they are due

**219.** All of the following are debt utilization ratios except:

- A. debt to total assets
- B. times interest earned
- C. fixed charge coverage
- D. debt to sales

View answer

Correct answer: (D)

debt to sales

**220.** The most comprehensive means of financial forecasting is:

- A. through the use of securities analysts forecasts for the firm
- B. done with a short term time horizon
- C. done with a long term time horizon
- D. through the use of pro forma financial statements

View answer

Correct answer: (D)

through the use of pro forma financial statements



**221.** In general, the cost of producing a product is based on material, labor, and:

- A. profit margin
- B. cost of goods sold
- C. overhead costs
- D. shipping costs

View answer

Correct answer: (C)

overhead costs

**222.** On the pro forma balance sheet, changes in the level of accounts payable will be determined from:

- A. the prior balance sheet
- B. the cash budget
- C. the pro forma income statement
- D. the monthly cash payments schedule

View answer

Correct answer: (D)

the monthly cash payments schedule

**223.** The more aggressive firm:

- A. substitutes higher fixed costs for variable costs
- B. substitutes lower fixed costs for variable costs
- C. has lower potential profit above the break-even point
- D. is normally more effectively managed

View answer

Correct answer: (A)

substitutes higher fixed costs for variable costs

**224.** The highly financially leverage firm will typically:

- A. has a higher EPS figure than the conservative firm
- B. has a lower EPS figure than the conservative firm
- C. uses less debt than the conservative firm
- D. will produce the same EPS figure as the conservative firm

View answer

Correct answer: (A)

has a higher EPS figure than the conservative firm

**225.** Degree of combined leverage:

- A. should be minimized by the financial manager
- B. affects only balance sheet items
- C. decreases the firm's operating profit
- D. shows the impact of sales or volume changes on bottom line EPS

View answer

Correct answer: (D)

shows the impact of sales or volume changes on bottom line EPS

**226.** The cash conversion cycle equals:

- A. inventory period + collection period-payables period
- B. payables period-inventory period-collection period
- C. payables period + inventory period-collection period
- D. inventory period-collection period + payables period

View answer

Correct answer: (A)

inventory period + collection period-payables period

**227.** Under normal conditions:

- A. long term rates are lower than short term rates
- B. the yield curve is downward sloping, or inverted
- C. intermediate rates are higher than long or short term rates
- D. short term rates are lower than long term rates

View answer

Correct answer: (D)

short term rates are lower than long term rates

**228.** The concept of float is best defined as:

- A. cheques written by the corporation that are still outstanding
- B. cheques written to the corporation that are still outstanding
- C. the difference between the firm's recorded cash balance and the amount credited to the firm's account by the bank
- D. what a boat does in water

View answer

Correct answer: (C)

the difference between the firm's recorded cash balance and the amount credited to the firm's account by the bank

**229.** Under normal conditions, the longer the maturity of the security:

- A. the higher the yield
- B. the lower the yield
- C. the greater the possibility of the yield curve changing
- D. the lower the level of interest rate risk

View answer

Correct answer: (A)  
the higher the yield

**230.** The largest provider of short-term credit to the firm is:

- A. banks
- B. bondholders
- C. manufacturers or sellers of goods or services
- D. shareholders

View answer

Correct answer: (C)  
manufacturers or sellers of goods or services

[Previous](#)

Page 23 of 78

**231.** Banks will most likely provide funds for all of the following activities:

- A. financing of seasonal needs
- B. product line expansion
- C. long term growth
- D. marketing campaign

View answer

Correct answer: (D)  
marketing campaign

**232.** All of the following are characteristics of a credit shortage, except:

- A. the Bank of Canada tightens growth in money supply to fight inflation
- B. business needs more funds to carry inflation-laden receivables and inventory
- C. restrictive usury regulations are normally imposed
- D. savings withdrawals occur, with higher rates sought by investors

View answer

Correct answer: (C)

restrictive usury regulations are normally imposed

**233.** A eurodollar loan may be defined as:

- A. a loan by Canadian banks to European corporations
- B. a loan from a foreign bank denominated in dollars
- C. the borrowing of foreign currencies and conversion into dollars
- D. a foreign currency loan repaid in dollars

View answer

Correct answer: (B)

a loan from a foreign bank denominated in dollars

**234.** Asset-backed securities

- A. are issued by financially shaky firms
- B. usually trade at a yield below bankers acceptances
- C. provide the issuer with immediate cash
- D. rarely experience losses on the assets held

View answer

Correct answer: (C)

provide the issuer with immediate cash

**235.** An effective rate of return captures:

- A. the time period
- B. present values
- C. compounding effects
- D. tax consequences

View answer

Correct answer: (C)

compounding effects

**236.** A series of payments that can be drawn from a given amount is known as:

- A. future value-annuity
- B. present value-annuity
- C. annuity equalling a future amount
- D. annuity equalling a present amount

View answer

Correct answer: (D)  
annuity equalling a present amount

**237.** The time value of money plays an important role in which of the following:

- A. understanding the effective rate on a business loan
- B. understanding the composition of a mortgage payment
- C. determining the true rate of return on an investment
- D. all of the above

View answer

Correct answer: (D)  
all of the above

**238.** If there is an increase in the inflation premium:

- A. the yield to maturity will decrease
- B. the price of the bond will decrease
- C. the maturity of the bond will change proportionally
- D. there will be no effect on the price of the bond

View answer

Correct answer: (B)  
the price of the bond will decrease

**239.** The price-earnings ratio is affected by:

- A. the earnings and sales growth of the firm
- B. the volatility of the firm's performance
- C. the debt-equity structure of the firm
- D. all of the above are correct

View answer

Correct answer: (D)  
all of the above are correct

**240.** The cost of capital is best calculated with:

- A. market value weightings
- B. book value weightings
- C. Modigliani and Miller weightings
- D. It doesn't matter.

View answer

Correct answer: (A)  
market value weightings

[Previous](#)

Page 24 of 78

**241.** Regardless of the type of asset being acquired, the appropriate discount rate is:

- A. the aftertax cost of debt
- B. the required rate of return
- C. the weighted average cost of capital
- D. the cost of equity capital

View answer

Correct answer: (C)  
the weighted average cost of capital

**242.** The biggest problem facing a manager is:

- A. the cost of financing
- B. competitive pressures
- C. the farther out the time horizon moves, the greater the uncertainty
- D. changing economic conditions

View answer

Correct answer: (C)  
the farther out the time horizon moves, the greater the uncertainty

**243.** One of the main advantages of the payback period is:

- A. it is easy to use and places a premium on liquidity
- B. it ignores the time value of money
- C. all inflows related to the decision are considered
- D. outflows are equated with inflows using the rate of return

View answer

Correct answer: (A)  
it is easy to use and places a premium on liquidity

**244.** The internal rate of return method:

- A. does not consider inflows after the cutoff period
- B. calculates the interest rate that equates outflows with subsequent inflows
- C. determines the time required to recoup the initial investment
- D. determines whether future benefits justify current expenditures

View answer

Correct answer: (B)

calculates the interest rate that equates outflows with subsequent inflows

**245.** With mutually exclusive projects:

- A. both projects can be accepted
- B. the project with the higher NPV is accepted
- C. both projects are rejected
- D. only one project is accepted

View answer

Correct answer: (D)

only one project is accepted

**246.** All of the following are true of the coefficient of variation except:

- A. it eliminates the size difficulty resulting from standard deviation
- B. it is computed by dividing the standard deviation by the expected value
- C. it measures the volatility of returns relative to the market
- D. the larger the coefficient of variation, the greater the risk

View answer

Correct answer: (C)

it measures the volatility of returns relative to the market

**247.** Projects that increase the overall risk level of the firm:

- A. should not be undertaken
- B. should be discounted at the firm's cost of capital
- C. should be discounted at a rate higher than the cost of capital
- D. will have a low standard deviation

View answer

Correct answer: (C)

should be discounted at a rate higher than the cost of capital

**248.** The extent of correlation among projects is represented by:

- A. the coefficient of correlation
- B. the coefficient of variation
- C. the standard correlation coefficient
- D. the variance

View answer

Correct answer: (A)  
the coefficient of correlation

**249.** One of the main purposes of the capital markets is:

- A. to provide access to short-term funds
- B. to provide access to long term funds
- C. to allocate capital to the most efficient user
- D. to set various interest rates

View answer

Correct answer: (C)  
to allocate capital to the most efficient user

**250.** Which of the following characteristics of financial intermediaries is incorrect:

- A. they are the interface between suppliers and demanders of funds
- B. they increase the cost of funds to corporation and governments
- C. they help make the flow of funds efficient and competitive
- D. they include banks, mutual funds, and credit unions

View answer

Correct answer: (B)  
they increase the cost of funds to corporation and governments

**251.** All of the following are typically key roles of the investment dealer except:

- A. underwriter
- B. market maker
- C. broker
- D. advisor to the firm

View answer

Correct answer: (C)  
broker

**252.** The main function of syndicate members is:

- A. acting as the agent of the firm
- B. selling shares to the public
- C. determining the spread
- D. wholesaling shares to brokers and dealers

View answer



Correct answer: (D)  
wholesaling shares to brokers and dealers

**253.** One of the main reasons an initial public offering (IPO) may do well in the after market is:

- A. stabilization by the underwriters
- B. stabilization by the firm
- C. public misconceptions of the firm's value
- D. the security was underpriced

View answer

Correct answer: (D)  
the security was underpriced

**254.** New equity financing is primarily done by way of a:

- A. public offering
- B. private offering
- C. rights offering
- D. leveraged offering

View answer

Correct answer: (A)  
public offering

**255.** The par value of a bond is:

- A. the initial or face value of the bond
- B. the yield to maturity
- C. the stated interest payment
- D. the value of the bond as traded on security markets.

View answer

Correct answer: (A)  
the initial or face value of the bond

**256.** Bond yields are quoted in all of the following ways except:

- A. coupon rate
- B. current yield
- C. yield to maturity
- D. debt yield

View answer

Correct answer: (D)  
debt yield

**257.** Leasing offers all of the following advantages except:

- A. leases are an expense item that cannot be capitalized
- B. the provisions of a lease may be less restrictive than a bond indenture
- C. there may be no down payment requirement
- D. creditor claims may be restricted on real property

View answer

Correct answer: (A)  
leases are an expense item that cannot be capitalized

**258.** The ultimate ownership of the firm resides:

- A. with management
- B. with common shareholders
- C. with preferred shareholders
- D. with bondholders

View answer

Correct answer: (B)  
with common shareholders

**259.** The most important voting issue for common shareholders is:

- A. election of the board of directors
- B. dividend policy
- C. proxy assignment
- D. adoption of the annual report

View answer

Correct answer: (A)  
election of the board of directors

**260.** With cumulative dividends:

- A. preferred stock may participate over and above the quoted yields
- B. the preferred shareholder is assured of receiving a dividend every year
- C. preferred dividends accumulate and must be paid in full
- D. the firm's obligation to its shareholders is lessened

View answer

Correct answer: (C)

preferred dividends accumulate and must be paid in full