

گروه ب

ترم: اول سال تحصیلی 1392-93

زمان: 75 دقیقه-تاریخ

استاد: دکتر محمد سیرانی

بهمراه داشتن ماشین حساب مجاز است

دانشگاه آزاد اسلامی - واحد کاشان

آزمون درس: تصمیم گیری در مسائل مالی

نام و نام خانوادگی:

شماره دانشجویی:

Choose the correct answer (one third score per each correct answer)

- 1. A company has trade credit which is 2/10, net 30. The company pays on the 20th day. The effective borrowing cost of not paying on the 10th day is closest to:**
 - A. 44.6%.
 - B. 106.0%.
 - C. 109.0%.
- 2. Which of the following is least likely to be a pull on liquidity for a company?**
 - A. paying vendors early.
 - B. uncollected receivables.
 - C. limited short-term lines of credit.
- 3. A company has trade credit with its suppliers and receives a discount if it pays within a specified number of days. It works out the cost of trade credit is 50% if it pays on the net day. If the company's short term cost of funds is 18% then the company should pay:**
 - A. on the day of purchase.
 - B. on the last day of the discount period
 - C. just after the discount period has ended.
- 4. North Company has a common stock price of \$72. The latest reported earnings per share were \$4.80 and dividends per share were \$1.60. The return on equity is 8%. The cost of equity is closest to:**
 - A. 7.46%.
 - B. 7.55%.
 - C. 7.67%.
- 5. To enable a board to act in the best long-term interests of shareowners, it is least appropriate it possesses:**
 - A. resources.
 - B. independence.
 - C. political affiliation.

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6. Which of the following ratios would be useful in evaluating a company's internal liquidity?

- A. Quick ratio.
- B. Equity turnover.
- C. Interest coverage.

7. The following financial information is given for a company:

Net profit margin = 4%

Operating profit margin = 16%

Equity turnover = 3.2

Total asset turnover = 2.5

The return on equity is closest to:

- A. 10.0%.
- B. 12.8%.
- C. 51.2%.

8. Which of the following statements is most accurate concerning the different methods for evaluating projects?

- A. The IRR method can give multiple answers if there are nonconventional cash flows.
- B. If the profitability index is positive it indicates that a project should be accepted.
- C. The IRR method is preferred since it assumes reinvestment at the project's cost of capital.

9. In proforma analysis which of the following items is usually considered to be a fixed rather than a sales-driven burden?

- A. tax rate.
- B. depreciation.
- C. selling expenses.

10. In order to secure short-term funding a company factors its accounts receivable. This means that:

- A. receivables are being used as collateral for a loan.
- B. sells the receivables to the factor who takes responsibility for collecting the receivables.
- C. it takes out protection from the factor against its customers defaulting on payment of money owed.

11. Which yield measure is the most appropriate for comparing a company's investments in short-term securities?

- A. Bond equivalent yield .
- B. Money market yield .
- C. Discount basis yield.

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12. Which one of the following is least likely to be considered good corporate governance of a listed company?

- A. The board members' actions and decisions represent the best interests of shareowners.
- B. Appropriate controls and procedures are in place covering management's activities in running the day-to-day operations of the company.
- C. All shareowners have the same right to participate in the governance of the company, with founding shareowners normally given the right to veto certain resolutions.

13. A company provides the following information :

Credit sales \$125 million

Cost of goods sold \$80 million

Accounts receivable \$15 million

Beginning Inventory \$16 million

Ending Inventory \$22 million

Accounts payable \$13 million

The operating cycle and net operating cycle are closest to:

<u>Operating cycle</u>	<u>Net operating cycle</u>
A. 108.2	53.1
B. 144.2	84.9
C. 144.2	89.0

14. The asset allocation of investors between equities and fixed income in the major international capital markets is:

- A. very similar, since investors are using the same optimization models.
- B. quite different, since investors are making decisions in different economic and social environments.
- C. Very similar, since asset allocation is the most important step in portfolio construction in all major market.

15. It is assumed that sales and related costs are growing at 5% per annum and there is no change in capital structure, then National Telecom Corporation's proforma net income in 2008 is closest to:

- A. \$ 51.25 million.
- B. \$ 54.00 million.
- C. \$ 56.00 million.

16. The beta of an asset:

- A. lies between -1 and 1.
- B. is a measure of unsystematic risk.
- C. is 1 if the asset is the market portfolio.

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17. If a stock lies above the security market line (SML) this would indicate that the stock:

- A. is overvalued.
- B. is undervalued.
- C. has a higher expected return than the market.

18. One of the basic principles of capital budgeting is that:

- A. decisions are based on cash flows, not accounting income .
- B. cash flows should be analyzed on a pre-tax basis .
- C. opportunity costs should be excluded from the analysis of a project .

19. Which of the following types of capital budgeting projects are most likely to generate little to no revenue

- A. Regulatory projects .
- B. Replacement projects to maintain the business .
- C. New product or market development .

20. If two projects are mutually exclusive, a company :

- A. can accept either project, but not both projects .
- B. must accept both projects or reject both projects .
- C. Can accept one of the projects, both projects, or neither project

21. Kendra Jackson, CFA, is given the following information on two stocks, Rockaway and Bridgeport .

Covariance between the two stocks = 0.0325

Standard Deviation of Rockaway's returns = 0.25

Standard Deviation of Bridgeport's returns = 0.13

Assuming that Jackson must construct a portfolio using only these two stocks, which of the following combinations will result in the minimum variance portfolio?

- A. 100% in Bridgeport .
- B. 50% in Bridgeport, 50% in Rockaway .
- C. 80% in Bridgeport, 20% in Rockaway .

22. Plunger Company's accounts payable department receives an invoice from a vendor with terms of 2/10 net 30. If Plunger pays the invoice on its due date, the cost of trade credit is closest to :

- A. 44.6% .
- B. 27.9% .
- C. 43.5%.

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23. Which of the following sources of short-term liquidity is considered reliable enough that it can be listed in the footnotes to a firm's financial statements as a source of liquidity ?

- A. Revolving line of credit .
- B. Factoring agreement .
- C. Uncommitted line of credit.

24. Corporate governance defines the appropriate rights, role, and responsibilities of:

- A. management, the board of directors, and shareholders .
- B. management only .
- C. management and the board of directors.

25. The least appropriate security for investing short-term excess cash balances would be:

- A. preferred stock.
- B. bank certificates of deposit.
- C. time deposits.

26. An analyst who is evaluating a firm's working capital management would be least likely to be concerned if the firm's :

- A. operating cycle is shorter than that of its peers .
- B. number of days of inventory is higher than that of its peers .
- C. total asset turnover is lower than its industry average.

27. Additional debt should be used in the firm's capital structure if it increases:

- A. the value of the firm .
- B. firm earnings .
- C. earnings per share.

28. Which one of the following statements about the marginal cost of capital (MCC) is most accurate?

- A. A breakpoint on the MCC curve occurs when one of the components in the weighted average cost of capital changes in cost .
- B. The MCC is the cost of the last dollar obtained from bondholders .
- C. The MCC falls as more and more capital is raised in a given period.

29. The marginal cost of capital is:

- A. the cost of the last dollar raised by the firm .
- B. tied solely to the specific source of financing .
- C. Equal to the firm's weighted cost of funds.

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30. Variability in a firm's operating income is most closely related to its:

- A. business risk .
- B. internal risk .
- C. financial risk.

31. A publicly traded company has a beta of 1.2, a debt/equity ratio of 1.5, ROE of 8.1%, and a marginal tax rate of 40%. The unlevered beta for this company is closest to:

- A. 0.632 .
- B. 1.071 .
- C. 0.832.

32. Financial risk is borne by :

- A. common shareholders .
- B. creditors .
- C. managers.

33. When using net present value (NPV) profiles:

- A. one should accept all independent projects with positive NPVs .
- B. the NPV profile's intersection with the vertical y-axis identifies the project's internal rate of return .
- C. one should accept all mutually exclusive projects with positive NPVs.

34. Which of the following statements regarding the impact of financial leverage on a company's net income and return on equity (ROE) is most accurate?

- A. Using financial leverage increases the volatility of ROE for a level of volatility in operating income .
- B. If a firm has a positive operating profit margin, using financial leverage will always increase ROE .
- C. Increasing financial leverage increases both risk and potential return of existing bondholders .

35. Ashlyn Lutz makes the following statements to her supervisor, Paul Uring, regarding the basic principles of capital budgeting:

Statement 1: The timing of expected cash flows is crucial for determining the profitability of a capital budgeting project.

Statement 2: Capital budgeting decisions should be based on the after-tax net income produced by the capital project.

Which of the following regarding Lutz's statements is most accurate?

- | <u>Statement 1</u> | <u>Statement 2</u> |
|--------------------|--------------------|
| A. Correct | Incorrect |
| B. Correct | Correct |
| C. Incorrect | Correct |

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- 36. If a project has a negative cash flow during its life or at the end of its life, the project most likely has:**
- A. more than one internal rate of return .
 - B. a negative internal rate of return .
 - C. multiple net present values.
- 37. Which of the following types of capital budgeting projects are most likely to generate little to no revenue?**
- A. Regulatory projects .
 - B. Replacement projects to maintain the business .
 - C. New product or market development.
- 38. The CFO of Axis Manufacturing is evaluating the introduction of a new product. The costs of a recently completed marketing study for the new product and the possible increase in the sales of a related product made by Axis are best described (respectively) as:**
- A. sunk cost; externality .
 - B. opportunity cost; externality .
 - C. externality; cannibalization.
- 39. Which of the following steps is least likely to be an administrative step in the capital budgeting process ?**
- A. Arranging financing for capital projects .
 - B. Conducting a post-audit to identify errors in the forecasting process .
 - C. Forecasting cash flows and analyzing project profitability.
- 40. Assume that a 30-day commercial paper security has a holding period yield of 0.80%. The bond equivalent yield of this security is:**
- A. 9.73% .
 - B. 9.60% .
 - C. 10.12%.
- 41. A result that is most likely to give a financial manager concern that his firm's credit policy may have become too lenient is :**
- A. weighted average collection period has increased .
 - B. receivables turnover has increased significantly .
 - C. inventory turnover has decreased considerably.
- 42. The process of evaluating and selecting profitable long-term investments consistent with the firm's goal of shareholder wealth maximization is known as:**
- A. capital budgeting .
 - B. financial restructuring .
 - C. monitoring.

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43. Stock A has a standard deviation of 10%. Stock B has a standard deviation of 15%. The covariance between A and B is 0.0105. The correlation between A and B is:
- A. 0.55.
 - B. 0.25.
 - C. 0.70
44. ABC Corp. issued nonconvertible, non-callable preferred stock last year at an issue price of \$100; it pays a dividend of \$5 per annum. The stock is now trading at \$110. The company's marginal tax rate is 40%. The cost of preferred stock for ABC Corp is closest to:
- A. 2.7%.
 - B. 3.0%.
 - C. 4.5%.
45. The beta of ABC's common stock is 1.1, the dividend paid is \$3.50, and the stock price is \$82.00. The expected market return is 12% and the risk-free rate is 6%. The cost of equity is closest to:
- A. 4.3%.
 - B. 6.6%.
 - C. 12.6%.

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