

# Principal of finance

[Finance](#)



1. Which one of the following is defined as a firm's short-term assets and its short-term liabilities? A. working capital B. debt C. investment capital

D. net capital

E. capital structure

2. A stakeholder is:

A. a person who owns shares of stock.

B. any person who has voting rights based on stock ownership of a corporation.

C. a person who initially founded a firm and currently has management control over that firm.

D. a creditor to whom a firm currently owes money.

E. any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm.

3. Which one of the following is a capital budgeting decision?

A. determining how many shares of stock to issue

B. deciding whether or not to purchase a new machine for the production line

C. deciding how to refinance a debt issue that is maturing

D. determining how much inventory to keep on hand

E. determining how much money should be kept in the checking account

4. Which of the following should a financial manager consider when analyzing a capital budgeting project?

I. project start up costs

- II. timing of all projected cash flows
- III. dependability of future cash flows
- IV. dollar amount of each projected cash flow

- A. I and IV only
- B. I, II, and IV only
- C. I, II, and III only
- D. II, III, and IV only
- E. I, II, III, and IV

5. The articles of incorporation:

- I. describe the purpose of the firm.
- II. are amended periodically.
- III. set forth the number of shares of stock that can be issued.
- IV. detail the method that will be used to elect corporate directors.

- A. I and III only
- B. I and IV only
- C. II and III only
- D. II and IV only
- E. I, III, and IV only

6. Which one of the following is a source of cash?

- A. increase in accounts receivable
- B. decrease in notes payable
- C. decrease in common stock
- D. increase in accounts payable
- E. increase in inventory

7. Which one of the following is a source of cash?

- A. repurchase of common stock
- B. acquisition of debt
- C. purchase of inventory
- D. payment to a supplier
- E. granting credit to a customer

8. Which one of the following is a source of cash?

- A. increase in accounts receivable
- B. decrease in common stock
- C. decrease in long-term debt
- D. decrease in accounts payable
- E. decrease in inventory

9. According to the Statement of Cash Flows, a decrease in accounts receivable will \_\_\_\_\_ the cash flow from \_\_\_\_\_ activities.

- A. decrease; operating
- B. decrease; financing
- C. increase; operating
- D. increase; financing
- E. increase; investment

10. Which one of the following terms is defined as dividends paid expressed as a percentage of net income?

- A. dividend retention ratio

- B. dividend yield
- C. dividend payout ratio
- D. dividend portion
- E. dividend section

11. Which one of the following ratios identifies the amount of assets a firm needs in order to generate \$1 in sales?

- A. current ratio
- B. equity multiplier
- C. retention ratio
- D. capital intensity ratio
- E. payout ratio

12. You are developing a financial plan for a corporation. Which of the following questions will be considered as you develop this plan?

- I. How much net working capital will be needed?
  - II. Will additional fixed assets be required?
  - III. Will dividends be paid to shareholders?
  - IV. How much new debt must be obtained?
- A. I and IV only
  - B. II and III only
  - C. I, III, and IV only
  - D. II, III, and IV only
  - E. I, II, III, and IV

13. Which one of the following statements is correct?

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- A. Pro forma statements must assume that no new equity is issued.
- B. Pro forma statements are projections, not guarantees.
- C. Pro forma statements are limited to a balance sheet and income statement.
- D. Pro forma financial statements must assume that no dividends will be paid.
- E. Net working capital needs are excluded from pro forma computations.

14. You are comparing the current income statement of a firm to the pro forma income statement for next year. The pro forma is based on a four percent increase in sales. The firm is currently operating at 85 percent of capacity. Net working capital and all costs vary directly with sales. The tax rate and the dividend payout ratio are fixed. Given this information, which one of the following statements must be true?

- A. The projected net income is equal to the current years net income.
- B. The tax rate will increase at the same rate as sales.
- C. Retained earnings will increase by four percent over its current level.
- D. Total assets will increase by less than four percent.
- E. Total liabilities and owners equity will increase by four percent.

15. Which of the following ratios are measures of a firms liquidity?

- I. cash coverage ratio
- II. interval measure
- III. debt-equity ratio
- IV. quick ratio

- A. I and III only

- B. II and IV only
- C. I, III, and IV only
- D. I, II, and III only
- E. I, II, III, and IV

16. A firm has net working capital of \$640. Long-term debt is \$4, 180, total assets are \$6, 230, and fixed assets are \$3, 910. What is the amount of the total liabilities?

- A. \$2, 050
- B. \$2, 690
- C. \$4, 130
- D. \$5, 590
- E. \$5, 860

17. Bonner Collision has shareholders equity of \$141, 800. The firm owes a total of \$126, 000 of which 60 percent is payable within the next year. The firm net fixed assets of \$161, 900. What is the amount of the net working capital?

- A. \$25, 300
- B. \$30, 300
- C. \$75, 600
- D. \$86, 300
- E. \$111, 500

18. Crandall Oil has total sales of \$1, 349, 800 and costs of \$903, 500.

Depreciation is \$42, 700 and the tax rate is 34 percent. The firm does not

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have any interest expense. What is the operating cash flow?

- A. \$129, 152
- B. \$171, 852
- C. \$179, 924
- D. \$281, 417
- E. \$309, 076

19. Wises Corner Grocer had the following current account values. What effect did the change in net working capital have on the firms cash flows for 2009?

- A. net use of cash of \$37
- B. net use of cash of \$83
- C. net source of cash of \$83
- D. net source of cash of \$111
- E. net source of cash of \$135

20. The Flower Shoppe has accounts receivable of \$3, 709, inventory of \$4, 407, sales of \$218, 640, and cost of goods sold of \$167, 306. How many days does it take the firm to both sell its inventory and collect the payment on the sale assuming that all sales are on credit?

- A. 14. 67 days
- B. 15. 81 days
- C. 16. 23 days
- D. 17. 18 days
- E. 17. 47 days