1. (TCO 4) Which of the following is true regarding the evaluation of projects?
   1. Sunk costs should be included
   2. Erosion effects should not be considered
   3. Financing costs need to be included
   4. Opportunity costs are relevant
2. (TCO4) There are several disadvantages to the payback method, among them:
   1. Payback ignores the time value of money
   2. Payback can be used in conjunction with time adjusted methods of evaluation.
   3. Payback is easy to use and to understand
   4. None of the above is a disadvantage
3. (TCO 3 and 4) A net present value of zero implies that an investment:
   1. Has no initial cost.
   2. Has an expected return that is less than the required return
   3. Should be rejected even if the discount rate is lowered
   4. Never pays back its initial cost
   5. Is earning a return that exactly matches the requirement
4. (TCO 3 and 4) Portman’s is considering adding a new product to its lineup. This product is expected to generate sales for three years, after which the product will be discontinued. What is the project’s net present value, if the firm wants to earn a 12% rate of return?
   1. Year Cash flow 0 =-62,000 1 =10,730 2 =$20,190 3 =40,340
   2. $7,611.08
   3. $6,795.61
   4. $1,084.41
   5. $4,862.07 or $9,682.26
5. (TC04) The Inventive Co. is considering a new project. This project requires an initial cash investment of $70,000. The project will generate cash inflows of $10,500 in the first year. Then, the project will do nothing for two years, after which time cash inflows of $10,500 in the first year. Then, the project will do nothing for two years, after which time cash inflows of $25,000 will be generated for four years. How long will it take the Inventive Co. to recover its $70,000 investment?
   1. 5.16
   2. 5.38
   3. 6.11
   4. 6.62
   5. 6.94
6. (TCO 4) The postponement of a project until conditions are more favorable:
   1. Is a valuable option
   2. Is referred to as the option to extend
   3. Could not cause a negative net present value project to become a positive net present value project
   4. Will generally cause the internal rate of return for a project to decline.
7. (TCO 4) The situation that exists when the units within a business are allotted a fixed amount of money for capital budgeting , is referred to as :
   1. Soft rationing
   2. Hard rationing
   3. Unit capital rationing allocated planning or Strategic planning
8. (TCO 3 and 4) ABC Cameras is considering an investment that will have a cost of $10,000
   1. And the following cash flows: $6,000 in year 1, $4,000 in year 2 and $3,000 in year 3. Assume the cost of capital is 10%. Which of the following is true regarding this investment?
   2. The net present value of the project is $11,000
   3. This project should be accepted because it has a negative net present value
   4. This project should be accepted because it has a payback higher than 3 years
   5. The net present value of the project is close to $1,000
9. (TCO 4) Assume company X plans to invest $60,000 in new computers. Using Tables 9.6 and 9.7 of your text book (Corporate Finance, Ross, Westerfield, Jordan 7th ED) (page 277) which is the first year depreciation amount under MACRS?
   1. $12,000
   2. $8,575
   3. 19,200
   4. $19,800
   5. None of the above
10. (TCO 1 and 4) Assume a project has earnings before depreciation, and taxes of $110,000, depreciation of $40,000, and that the firm has a 30 percent tax bracket. What are the after-tax cash flows for the project?
    1. $47,000
    2. $89,000
    3. A loss of $21,000
    4. None of these
11. (TCO 8) Which of the following statements is true regarding systematic risk?
    1. Is diversifiable
    2. Is the total risk associated with surprise events?
    3. 11.
    4. It is measured by beta
    5. it is measured by standard deviation
12. (TCO 8) Which statement is not true regarding risk?
    1. The expected return is usually not the same as the actual return
    2. A key to assess risk is determining how much risk an investment adds to a portfolio
    3. Some risks cannot be decreased by or mitigated by the financial manager
    4. The higher the risk, the higher the return investors require for the investment
    5. All of the above are true statements
13. The stock of Chocolate Galore is expected to produce the following returns, given the various states of the economy. What is the expected return on this stock?
    1. State of the economy Probability of the state of economy Rate of return
    2. Recession .02 -0.06
    3. Normal .88 .11
    4. Boom .10 .17
    5. 7.33 percent
    6. 9.82 percent
    7. 11.26 percent
    8. 11.33 percent
    9. percent
14. (TC08) You own a portfolio that consists of $8,000 in stock A, $4,600 in stock B, $13,000 in stock C, and $5,500 in stock D. What is the portfolio weight of stock A?
    1. 14(continued)
    2. 14.79 percent
    3. 15.91 percent
    4. 18.42 percent
    5. 19.07 percent
    6. 25.72 percent
15. (TCO 8) You would like to create a portfolio that is equally invested in a risk-free asset and two stocks. The one stock has a beta of .80. What does the beta of the second stock have to be if you want the portfolio risk to equal that of the overall market?
    1. 1.4
    2. 1.6
    3. 1.8
    4. 2.0
    5. 2.2
    6. Page 2
16. (TCO8) If the financial markets are strong form efficient, then :
    * 1. Only the most talented analysts can determine the true value of a security
      2. Only company insiders have a marketplace advantage
      3. Technical analysis provides the best tool to gain a market place advantage.
      4. No one person has an advantage in the marketplace
      5. Every security offers the same rate of return
17. (TCO5) Royal petroleum Co. can buy a piece of equipment that can be financed with debt at a cost of 6% (after-tax) and common equity at a cost of 18 percent. Assume debt and common equity each represent 50 percent of the firm’s capital structure. What is the weighted average cost of capital?
    * 1. Between 3 and 9 %
      2. Exactly 12%
      3. More than 14%
      4. Exactly 11%
      5. None of the above
18. (TCO 5, 6, & 7) An issue of common stock is expected to pay a dividend of $4.80 at the end of the year. Its growth rate is equal to eight percent. If the required rate of return is 13%, what is the current price?
    * 1. 103.68
      2. $36.92
      3. $96.00
      4. None of these
19. (TCO 5,6, &7) Which of the following is not true regarding the cost of debt?
    * 1. It is the return that the firm’s creditors demand on new borrowing.
      2. It is the interest rate that the firm pays on current/existing borrowing
      3. An appropriate method to compute the cost of debt is using the YTM of current bonds outstanding
      4. It needs to be converted into an after-tax cost.
20. (TCO 5) Retained earnings has a cost associated with it because:
    * 1. New funds must be raised
      2. There is an opportunity cost associated with stockholder funds
      3. Ke>g or Flotation costs increase the cost of funding.
21. (TCO 4) A project has the following cash flows. What is the internal rate of return?
    * 1. YEAR 0 1 2 3
      2. Cash flow -520,000 $112,900 $367,200 $204,600
      3. Less than 10%
      4. Approximately 14%
      5. More than 16%
      6. More than 18% but less than 20%
22. (TCO 5,6,&7) All else constant, the weighted average cost of capital for a firm will decrease if :
    * 1. A firm’s bonds start selling at a premium, rather than at a discount.
      2. The market risk premium increases.
      3. The firm replaces some of its debt with preferred stock
      4. Corporate taxes are eliminated.
      5. The dividend yield on the common stock increases.
23. (TCO 5,6,&7) The six percent preferred stock of FKH Manufacturing is selling for $62 a share. What is the firm’s cost of preferred stock, if the tax rate is 34 percent and the par value per share is $100?
    * 1. 5.98%
      2. 7.06%
      3. 8.05%
      4. 9.68%
      5. 10.10%
24. (TCO 2) The bankruptcy process has been utilized by firms as a means of:
    * 1. Renegotiating labor contracts
      2. 9(continued)
      3. Reducing labor costs
      4. Avoiding payment of a legal judgment
      5. Improving the firm’s competitive position
      6. All of the above
25. (TCO5 ) Which of the following statements is true regarding the cost of capital?
    * 1. All other being equal, it is preferable to use market value weights than book value weights
      2. The WACC is the most appropriate discount rate for all projects
      3. Should not include the cost of retained earnings
      4. Depends primarily on the source of the funds, not the use
26. (TCO2) Which of the following decreases the cash account?
    * 1. A payment due is received from a client
      2. Dividends are paid to shareholders
      3. Raw materials are purchased and paid for with credit
      4. A new machine is purchased and paid for with the business line of credit
27. (TCO 2) Which of the following statements is true?
    * 1. The optimal credit policy minimizes the total cost of granting credit.
      2. Firms should avoid offering credit at all cost.
      3. An increase in a firm’s average collection period generally indicates that an increased number of customers are taking advantage of the cash discount.
      4. Character, refers to the ability of a firm to meet its credit obligations out its operating cash flows
      5. The optimal credit policy is the policy that produces the largest amount of sales for a firm.
28. (TCO 2) All else constant, a decrease in the accounts receivable period will:
    * 1. Lengthen the accounts payable period
      2. Shorten the inventory Period
      3. Lengthen the operating cycle
      4. Shorten the cash cycle
      5. Shorten the accounts payable period.
29. (TCO 2) Highland, Inc has the following estimated quarterly sales for next year. The accounts receivable period is 30 days. How much does the firm expect to collect in the fourth quarter? Assume the each month has 30 days.
    * + - 1. Q1 Q2 Q3 Q4
      1. Sales $3200 $4500 $4400 $2900
      2. $3,250
      3. $3,400
      4. $3,600
      5. $3,750
      6. $3,900
30. (TCO 1) Which of the following statements is true regarding the goal of financial management?
    * 1. The goal of maximizing the value per share of existing stock is relevant to all organizations.
      2. The ultimate goal of the financial management is maximizing earnings and profits
      3. 15-continued
      4. For a company considering international operations, the goal will be the same but the company will have to consider the local, social, economical and political environment in the decision-making process.
      5. Page3
31. (TCO 1) Which of these activities is a capital budgeting task?
    * 1. Determining the amount of cash needed on a daily basis to operate a firm
      2. Identifying assets that produce value in excess of the cost to acquire those assets
      3. Establishing the inventory level
      4. Establishing a new credit policy
32. (TCO 1) Book values are different from market values because;
    * 1. Book values reflect the value of the asset based on generally-accepted accounting principles
      2. Book values do not reflect the amount someone is willing to pay today for an asset.
      3. All of the above
      4. None of the above
33. (TCO 1) Using the following tax table to answer this question:
    * 1. Taxable Income Tax Rate
      2. $0- 50,000 15%
      3. 50,001- 75,000 25
      4. 75,001- 100,000 34
      5. 100,001- 335,000 39
      6. 335,001- 10,000,000 34
      7. Riddell, Inc earned $144,320 in taxable income for the year. How much tax does the company owe on this income?
      8. $39,535
      9. $49,069
      10. $51,285
      11. $56,285
      12. $78,535
34. (TCO 3) Regional Bank offers you an APR of nine percent compounded quarterly, and Local Bank offers you an EAR of 9.15 percent for a new automobile loan. You choose \_\_\_\_\_\_\_\_\_\_ because it’s \_\_\_\_\_\_\_\_\_\_\_\_is lower
    * 1. Regional Bank, APR
      2. Local Bank, EAR
      3. Regional Bank, EAR
      4. Local Bank, APR
35. (TCO 3) You deposited $8,000 in your bank account today. Which of the following will increase the future value of your deposit, assuming that all interest is reinvested? Assume the interest rate is a positive value. Select all that apply:
    * 1. A decrease in the interest rate
      2. Increasing the initial amount of your deposit
      3. Decreasing the frequency of the interest payments
      4. Extending the length of the investment period
36. (TCO 3) You want to have $15,000 for a down payment on a house five years from now. If you can earn 13%, compounded annually, on your saving, how much do you need to deposit today to reach your goal?
    * 1. $7,858.11
      2. $8,141.40
      3. $9,803.58
      4. $12,464.28
      5. $14,213.25
37. (TCO 3) High Risk Operations, INC owes your firm $52,800. This amount is delinquent, so you have offered to arrange a payment plan in the hopes that you might at least collect a portion, if not all, of this money. Your offer will consist of weekly payments for two years, at an interest rate of 4%. What is the amount of each payment?
    * 1. $241.29
      2. $528.47
      3. $736.28
      4. $884.10
      5. $1,036.22
38. (TCO 3) Which type of loan is comparable to the present value of a future lump sum?
    * 1. Effective annual rate
      2. Amortized
      3. Interest-only
      4. Annual percentage
      5. Pure discount
39. (TCO 3) Fanta Cola has $1,000 par value bonds outstanding at 12% interest. The bonds mature in 25 years. What is the current price of the bond if the YTM is 13%? Assume annual payments
    * 1. 9(continued)
      2. $1078
      3. $1085
      4. $927
      5. $1000
40. (TCO 6) Which of the following is true regarding the primary market?
    * 1. It is the market where the largest numbers of shares are traded on a daily basis
      2. It is the market in which the largest number of issues is listed.
      3. It is the market with the largest number of participants
      4. It is the market with new securities are offered
      5. It is the market where shareholders trade most frequently with each other
41. (TCO 7) Which one of the following statements concerning financial leverage is correct?
    * 1. Financial leverage increases profits and decreases losses.
      2. Financial leverage has no effect on a firm’s return of equity
      3. Financial leverage, refers to the use of common stock
      4. Financial leverage magnifies both profits and losses.
      5. Increasing financial leverage will always increase the earnings per share
42. (TCO 3) SmithKline Company’s bonds are currently selling for $1,157.75 per $1000 par value bond. The bonds have a 10 % coupon rate and will mature in 10 years. What is the approximate yield to maturity?
    * 1. 6.96%
      2. 7.69%
      3. 11.0%
      4. 12.1%
43. (TCO 8) Which of the following is true regarding bonds?
    * 1. Bonds do not carry default risk
      2. Bonds are sensitive to changes in the interest rates.
      3. Moody’s and Standard and Poor’s provide information regarding a bond’s interest rate risk.
      4. Municipal bonds are free of default risk
      5. None of the above
44. (TCO 8) Two years ago, Morning Star Company issued seven percent, 25 year bonds and Track, INC issued seven percent, 10-year bonds. Since their time of issue, interest rates have increased. Which of the following statements is true of each firm’s bond prices in the market, assuming they have equal risk?
    * 1. Track’s decreased more than Morning Star’s
      2. Morningstar’s increased more than Track’s
      3. Morningstar’s decreased more than Track’s
      4. They are both priced the same
45. (TCO 6) A call provision in a bond agreement grants the issuer the right to:
    * 1. Repurchase the bonds prior to maturity at a pre-specified price
      2. Replace the bonds with equity securities
      3. Repurchase the bonds after maturity at a pre-specified price
      4. Change the coupon rate, provided the bondholders are notified in advance
      5. Buy back the bonds on the open market
      6. Page 4
46. (TCO 6) Which of the following is regarding income bonds?
    * + 1. Are relatively uncommon
        2. Can be exchanged for a fixed number of shares at maturity only
        3. Can be exchanged for a fixed number of shares before maturity
        4. Allow the holder to require the issuer to buy the bond back
47. (TCO 6 and 7) The document that outlines the covenants and duties existing between bondholders and the issuing corporation is called:
    * + 1. An indenture
        2. A debenture
        3. Secured debt
        4. Protective covenants
48. (TCO 6) Company A has a bond outstanding with $90 annual interest payment, a market price of $820 and a maturity date in five years. Assume the par value to be $1,000. What is the bond’s coupon rate and current yield, respectively?
    * + 1. 11% and 9%
        2. 9% and 11%
        3. 9% and 14%
        4. Cannot be determined
        5. None of the above
49. (TCO 2) Which of the following does not reduce collection float?
    * + 1. Installing a lockbox system
        2. Deposit collections weekly, instead of daily
        3. 4(continued)
        4. Requiring all customers pay by cash, rather than with check
        5. Utilize the benefits of the Check Clearing Act for the 21st Century.
50. (TCO 2) Storage and tracking costs, insurance and taxes, and losses due to theft are examples of:
    * + 1. Inventory depletion cost
        2. Sunk cost
        3. Inventory cost
        4. None of the above.
51. (TCO 4) Which of the following is true regarding the evaluation of projects? (Points: 4) sunk costs should be included erosion effects should be considered financing costs need to be included opportunity costs are irrelevant 2.
52. (TCO 4) There are several disadvantages to the payback method, among them: (Points: 4) payback ignores the time value of money. payback can be used in conjunction with time adjusted methods of evaluation. payback is easy to use and to understand. none of the above is a disadvantage. 3.
53. (TCO 3 and 4) You can ensure that an investment is expected to create value for (Points: 4) have a PI equal to zero. produce negative rates of return. have positive AARs. have positive IRRs. have positive NPVs. 4
54. . (TCO 3 and 4) Portman's is considering adding a new product to its lineup. This product is expected to generate sales for three years, after which time the product will be discontinued. What is the project's net present value, if the firm wants to earn a 12 percent rate of return? (Points: 4) $7,611.08 $6,795.61 $1,084.41 $4,862.07 $9,682.26 5. (TCO 4)
55. Leward Manufacturing is spending $115,000 to update its equipment. This is necessary if the firm wishes to be competitive in the marketplace and provide a wide array of product models. The company estimates that these updates will improve its cash inflows by $27,500 a year, for eight years. What is the payback period? (Points: 4) 4.18 years 5.82 years 6.62 years 7.79 years This project never pays back 6.
56. (TCO 4) Ignoring the option to expand: (Points: 4) overestimates the internal rate of return on a project. ignores the possibility that a negative net present value project might be positive, given changes over time. ignores the possibility that one variable is the primary source of the forecasting risk associated with a project. underestimates the net present value of a project. 7.
57. (TCO 4) The situation that exists when the units within a business are allotted a fixed amount of money for capital budgeting, is referred to as: (Points: 4) soft rationing. hard rationing. unit capital rationing. allocated planning. strategic planning. 8.
58. (TCO 4) ABC Cameras is considering an investment that will have a cost of $10,000 and the following cash flows: $6,000 in year 1, $4,000 in year 2 and $3,000 in year 3. Assume the cost of capital is 10%. Which of the following is true regarding this investment? (Points: 4) The net present value of the project is approximately $1,011 This project should be accepted because it has a negative net present value This projectâ��s payback period is 10 years or more All of the above are true 9.
59. (TCO 4) Assume Company X plans to invest $60,000 in new computers. Using Tables 9.6 and 9.7 of your textbook (Page 277), which is the second year depreciation amount under MACRS? (Points: 4) $12,000 $19,200 $19,800 None of the above 10.
60. (TCO 1 and 4) Assume a corporation has earnings before depreciation, and taxes of $100,000, depreciation of $40,000, and that it has a 30 percent tax bracket. What are the after-tax cash flows for the company? (Points: 4) $82,000 $110,000 $42,000 none of these 11.
61. (TCO 8) Which of the following statements is true regarding systematic risk? (Points: 4) is diversifiable is the total risk associated with surprise events it is measured by beta it is measured by standard deviation 12.
62. (TCO 8) Which statement is not true regarding risk? (Points: 4) the expected return is usually not the same as the actual return a key to assess risk is determining how much risk an investment adds to a portfolio some risks can not be decreased or mitigated by the financial manager. the higher the risk, the higher the return investors require for the investment all of the above are true statements 13.
63. (TCO 8) The stock of Uptown Men's Wear is expected to produce the following returns, given the various states of the economy. What is the expected return on this stock? (Points: 4) 9.6 percent 10.4 percent 12.8 percent 13.6 percent 15.3 percent
64. 14. (TCO 8) You own a portfolio that consists of $8,000 in stock A, $4,600 in stock B, $13,000 in stock C, and $5,500 in stock D. What is the portfolio weight of stock B? (Points: 4) 14.79 percent 15.91 percent 18.42 percent 19.07 percent 19.46 percent 15. (TCO 8)
65. You currently own a portfolio valued at $24,000 that has a beta of 1.1. You have another $8,000 to invest, and would like to invest it in a manner such that the risk of the new portfolio matches that of the overall market. What does the beta of the new security have to be? (Points: 4) .46 .55 .61 .70 .90