Question #1 of 44

Robel Company, which pays no dividends, carries out a 3-for-5 reverse split of its common shares. How will this transaction affect Robel's forecasts of its net cash position?

A) No effect on the short-term forecast but less net cash in the longterm forecast.

B) More net cash in both the short-term forecast and the long-term forecast.

C) No effect because this transaction does not affect future cash flows.

Question #2 of 44

An analyst computes the following ratios for Iridescent Carpeting Inc. and compares the results to the industry averages:

Financial Ratio	Iridescent Carpeting	Industry Average
Current Ratio	2.3x	1.8x
Net Profit Margin	22%	24%
Return on Equity	17%	20%
Total Debt / Total Capital	35%	56%
Times Interest Earned	4.7x	4.1x

Based on the above data, which of the following can the analyst conclude? Iridescent Carpeting:

A) is most likely a younger company than its competitors.

B) has stronger profitability than its competitors.

C) has better short-term liquidity than its competitors.

Question #3 of 44

The condition that occurs when a company disburses cash too quickly, stretching the company's cash reserves, is *best* described as a:

A) pull on liquidity.

B) liquidity premium.

C) drag on liquidity.

Question #4 of 44

Which of the following sources of credit would an analyst *most likely* associate with a borrower of the lowest credit quality?

A) Uncommitted line of credit.

B) Committed line of credit.

C) Revolving line of credit.

Question #5 of 44

The average number of days that it takes to turn raw materials into cash proceeds is a firm's:

A) receivables cycle.

B) operating cycle.

C) inventory turnover cycle.

Question #6 of 44

A firm records the following cash flows on the same day: $250 million from debt proceeds; $100 million funds transferred to a subsidiary; $125 million in interest payments; and $30 million in tax payments. The net daily cash position:

A) worsened.

B) remained the same.

C) improved.

Question #7 of 44

An example of a secondary source of liquidity is:

A) trade credit and bank lines of credit.

B) negotiating debt contracts.

C) cash flow management.

Question #8 of 44

Which of the following is NOT a limitation to financial ratio analysis?

A) A firm that operates in only one industry.

B) The need to use judgment.

C) Differences in international accounting practices.

Question #9 of 44

An example of a primary source of liquidity is:

A) filing for bankruptcy.

B) using trade credit from vendors.

C) renegotiating debt agreements.

Question #10 of 44

A banker's acceptance that is priced at $99,145 and matures in 72 days at $100,000 has a(n):

A) bond equivalent yield greater than its effective annual yield.

B) discount yield greater than its bond equivalent yield.

C) money market yield greater than its discount yield.

Question #11 of 44

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

A) bank certificates of deposit.

B) preferred stock.

C) time deposits.

Question #12 of 44

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

A) 44.6%.

B) 27.9%.

C) 43.5%.

Question #13 of 44

A large, creditworthy manufacturing firm would *most likely* get short-term financing by:

A) entering into an agreement for a committed line of credit.

B) issuing commercial paper.

C) factoring its receivables.

Question #14 of 44

Randox Industries has the following investment policy statement: "In order to achieve the safety and liquidity necessary in the investment of excess cash balances, the CFO or his designee may invest excess cash balances in 30-day U.S. Treasury bills, or in banker's acceptances with maturities of less than 31 days or 30-day certificates of deposit, where the credit rating of the issuing bank is A+ or higher." This policy statement is:

A) inappropriate because it is too restrictive.

B) inappropriate because both banker's acceptances and certificates of deposit are illiquid.

C) appropriate because these are all safe, liquid securities.

Question #15 of 44

A 30-day bank certificate of deposit has a holding period yield of 1%. What is the annual yield of this CD on a bond-equivalent basis?

A) 12.17%.

B) 12.00%.

C) 11.83%.

Question #16 of 44

With respect to inventory management,:

A) a decrease in a firm's days of inventory on hand indicates better inventory management and can lead to increased profits.

B) a firm with inventory turnover higher than the industry average can be expected to have better profitability as a result.

C) an increase in days of inventory on hand can be the result of either good or poor inventory management.

Question #17 of 44

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) Uncommitted line of credit.

C) Factoring agreement.

Question #18 of 44

A high cash conversion cycle suggests that a company's investment in working capital is:

A) too high.

B) appropriate.

C) too low.

Question #19 of 44

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

A) total asset turnover is lower than its industry average.

B) operating cycle is shorter than that of its peers.

C) number of days of inventory is higher than that of its peers.

Question #20 of 44

Compared to the prior period, a firm has greater days of receivables. The effect on the firm's cash conversion cycle and operating cycle are *most likely* a(n):

	Cash conversion cycle	Operating cycle
A)	Decrease	Increase
B)	Increase	Increase
C)	Increase	Decrease

Question #21 of 44

Compared to the prior year, Chart Industries has reported that its operating cycle has remained relatively stable while its cash conversion cycle has decreased. The *most likely* explanation for this is that the firm:

A) is relying more on its suppliers for short-term liquidity.

B) is paying its bills for raw materials more rapidly.

C) has improved its inventory turnover.

Question #22 of 44

Which of the following factors is *most likely* to cause a firm to need short-term financing?

A) Shorter cash conversion cycle than the industry average.

B) Operating cash inflows that fluctuate seasonally.

C) Return of principal from maturing investments.

Question #23 of 44

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) 10.12%.

B) 9.60%.

C) 9.73%.

Question #24 of 44

A 91-day Treasury bill has a holding period yield of 1.5%. What is the annual yield of this T-bill on a bond-equivalent basis?

A) 6.65%.

B) 6.02%.

C) 6.24%.

Question #25 of 44

In reviewing the effectiveness of a company's working capital management, an analyst has calculated operating cycle and cash conversion cycle measures for the past three years.

	20X6	20X7	20X8
Operating cycle (number of days)	55	60	62
Cash conversion cycle (number of days)	27	30	32

The trends in the operating cycle and cash conversion cycle *most likely* indicate:

A) stretching of payables.

B) slower collections of receivables.

C) improving liquidity.

Question #26 of 44

In a recent staff meeting, David Hurley, stated that analysts should understand that financial ratios mean little by themselves. He advised his colleagues to evaluate financial ratios carefully. During the discussion he made the following statements:

Statement 1: A company can be compared with others in its industry by relating its financial ratios to industry norms. However, care must be taken because many ratios are industry-specific, but not all ratios are important to all industries.

Statement 2: Comparing a company to the overall economy is useless because overall business conditions are constantly changing. Specifically, it is not the case that financial ratios tend to improve when the economy is strong and weaken during recessionary times.

Are statements 1 and 2 as made by Hurley regarding financial ratio analysis CORRECT?

	Statement 1	Statement 2
A)	Incorrect	Correct
B)	Correct	Incorrect
C)	Correct	Correct

Question #27 of 44

Which of the following forms of short-term financing is typically used to facilitate international trade?

A) Overdraft line of credit.

B) Commercial paper.

C) Banker’s acceptances.

Question #28 of 44

An analyst is reviewing the working capital portfolio investment policy of a publicly traded firm. Which of the following components of the policy is the analyst *least likely* to find acceptable?

A) Investments in U.S. T-bills, commercial paper, and bank CDs are acceptable unless issued by Stratford Bank.

B) Investments must have an A-1 rating from S&P or an equivalent rating from another agency.

C) Authority for selecting and managing short-term investments rests with the firm's treasurer and any designees selected by the treasurer.

Question #29 of 44

Liquidating short-term assets and renegotiating debt agreements are *best* described as a firm's:

A) primary sources of liquidity.

B) secondary sources of liquidity.

C) pulls and drags on liquidity.

Question #30 of 44

Yields on firms' investments in short-term securities for comparison purposes are *best* stated as:

A) $\text{holding period return}\left(\frac{365}{\text{days to maturity}}\right)$.

B) $\frac{\text{discount}}{\text{face}}\left(\frac{360}{\text{days to maturity}}\right)$.

C) $\text{holding period return}\left(\frac{360}{\text{days to maturity}}\right)$.

Question #31 of 44

An appropriate cash management strategy for a company that has a seasonally high need for cash prior to the holiday shopping season would *least likely* include:

A) investing in U.S. Treasury notes at other times of the year because they are highly liquid.

B) borrowing funds though a bank line of credit.

C) allowing short-term securities to mature without reinvestment.

Question #32 of 44

Which of the following sources of liquidity is the *most* reliable?

A) Revolving line of credit.

B) Uncommitted line of credit.

C) Committed line of credit.

Question #33 of 44

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.

Question #34 of 44

The quick ratio is considered a more conservative measure of liquidity than the current ratio because the quick ratio excludes:

A) inventories, which are not necessarily liquid.

B) short-term marketable securities, which may need to be sold at a significant loss.

C) accounts receivable, which may not be collectible in the short term.

Question #35 of 44

Which of the following is *least likely* an indicator of a firm's liquidity?

A) Amount of credit sales.

B) Cash as a percentage of sales.

C) Inventory turnover.

Question #36 of 44

A firm has average days of receivables outstanding of 22 compared to an industry average of 29 days. An analyst would *most likely* conclude that the firm:

A) has a lower cash conversion cycle than its peer companies.

B) may have credit policies that are too strict.

C) has better credit controls than its peer companies.

Question #37 of 44

A firm is choosing among three short-term investment securities:

Security 1: A 30-day U.S. Treasury bill with a discount yield of 3.6%.

Security 2: A 30-day banker's acceptance selling at 99.65% of face value.

Security 3: A 30-day time deposit with a bond equivalent yield of 3.65%.

Based only on these securities' yields, the firm would:

A) prefer the banker's acceptance.

B) prefer the U.S. Treasury bill.

C) prefer the time deposit.

Question #38 of 44

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) inventory turnover has decreased considerably.

C) receivables turnover has increased significantly.

Question #39 of 44

Alton Industries will have better liquidity than its peer group of companies if its:

A) receivables turnover is higher.

B) average trade payables are lower.

C) quick ratio is lower.

Question #40 of 44

Which of the following *most* accurately represents the cash conversion cycle?

A) average days of receivables + average days of inventory – average days of payables.

B) average days of payables + average days of inventory – average days of receivables.

C) average days of receivables + average days of inventory + average days of payables.

Question #41 of 44

Which of the following strategies is *most likely* to be considered good payables management?

A) Taking trade discounts only if the firm's annual return on short-term investments is less than the discount percentage.

B) Paying invoices on the last day to still get the supplier's discount for early payment.

C) Paying trade invoices on the day they arrive.

Question #42 of 44

An investment policy statement for a firm's short-term cash management function would *least* appropriately include:

A) information on who is allowed to invest corporate cash.

B) a list of permissible securities.

C) procedures to follow if the investment guidelines are violated.

Question #43 of 44

A company has just received a $5 million shipment from a supplier. Its terms of trade credit are 2/15 net 30. It has access to a line of credit with an annualized cost of 9%. The *best* short-term financing strategy is to pay the invoice:

A) immediately.

B) on day 30.

C) on day 15.

Question #44 of 44

Pierce Motor Company has an operating cycle of 150 days and a cash conversion cycle of 120 days, while Dunhill Motor, Inc. has an operating cycle of 140 days and a cash conversion cycle of 125 days. Based on these figures it is *most likely* that:

A) average days of payables for Dunhill is less than for Pierce.

B) average days of inventory for Dunhill is less than for Pierce.

C) average days of receivables for Dunhill is less than for Pierce.