SS 11 Corporate Finance: Leverage, Dividends and Share Repurchases, and Working Capital Management

Question #1 of 111

Question ID: 414866

The share price of Solar Automotive Industries is $50 per share. It has a book value of $500 million and 50 million shares outstanding. What is the book value per share (BVPS) after a share repurchase of $10 million?

A) $10.00.

B) $9.84.

C) $10.12

Question #2 of 111

Question ID: 414882

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	Correct
C)	Correct	Incorrect

Question #3 of 111

Question ID: 414877

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

A) Differences in international accounting practices.

B) A firm that operates in only one industry.

C) The need to use judgment.

Question #4 of 111

Question ID: 434351

A share repurchase has what effect on shareholder wealth compared to a cash dividend of the same amount, if the tax treatment of the two alternatives is the same?

A) Same effect.

B) Less effect.

C) Greater effect.

Question #5 of 111

Question ID: 414850

Paying a cash dividend is *most likely* to result in:

A) an increase in liquidity ratios.

B) an increase in financial leverage ratios.

C) the same impact on liquidity and leverage ratios as a stock dividend.

Question #6 of 111

Question ID: 414832

A firm expects to produce 200,000 units of flour that can be sold for $3.00 per bag. The variable costs per unit are $2.00, the fixed costs are $75,000, and interest expense is $25,000. The degree of operating leverage (DOL) and the degree of total leverage (DTL) is *closest* to:

	DOL	DTL
A)	1.3	1.3
B)	1.6	1.3
C)	1.6	2.0

Question #7 of 111

Question ID: 434359

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

A) Overdraft line of credit.

B) Banker's acceptances.

C) Commercial paper.

Question #8 of 111

Question ID: 434352

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

A) secondary sources of liquidity.

B) pulls and drags on liquidity.

C) primary sources of liquidity.

Question #9 of 111

Question ID: 414890

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 #10 of 111

Question ID: 414891

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

A) Money market yield.

B) Bond equivalent yield.

C) Discount basis yield.

Question #11 of 111

Question ID: 414856

Shareholders selling shares between the ex-dividend date and date of record:

A) receive the dividend.

B) forfeit the dividend, with the proceeds staying with the company.

C) forfeit the dividend, with the proceeds going to the buyer.

Question #12 of 111

Question ID: 460669

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) slower collections of receivables.

B) improving liquidity.

C) stretching of payables.

Question #13 of 111

Question ID: 414836

Which of the following *best* describes a firm with low operating leverage? A large change in:

A) earnings before interest and taxes result in a small change in net income.

B) the number of units a firm produces and sells result in a similar change in the firm's earnings before interest and taxes.

C) sales result in a small change in net income.

Question #14 of 111

Question ID: 414853

Financial managers utilize stock splits and stock dividends because they perceive that:

A) an optimal trading range exists.

B) brokerage fees paid by shareholders will be reduced.

C) investors will double the share price if there is a 20% stock dividend.

Question #15 of 111

Question ID: 414840

Which of the following is a key determinant of operating leverage?

A) The tradeoff between fixed and variable costs.

B) Level and cost of debt.

C) The competitive nature of the business.

Question #16 of 111

Question ID: 414906

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

A) Committed line of credit.

B) Uncommitted line of credit.

C) Revolving line of credit.

Question #17 of 111

Question ID: 487760

Armsware Industries' board is debating whether to issue a cash dividend or a stock dividend. Director Jones states, "We should issue a cash dividend because our liquidity ratios will improve and the credit rating agencies will love it." Director Beane states, "A stock dividend will improve our leverage ratios by increasing contributed capital, which is what the rating agencies are looking for." Are the statements by Jones and Beane accurate?

	Jones	Beane
A)	Yes	No
B)	Yes	Yes
C)	No	No

Question #18 of 111

Question ID: 414886

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

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

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

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

Question #19 of 111

Question ID: 414876

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 #20 of 111

Question ID: 414889

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 #21 of 111

Question ID: 414904

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

A) Committed line of credit.
B) Uncommitted line of credit.
C) Revolving line of credit.

Question #22 of 111

Question ID: 434349

Sinclair Construction Company's Board of Directors is considering repurchasing $30,000,000 worth of common stock. Sinclair assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Sinclair decides to borrow $30 million that it will use to repurchase shares. Sinclair's Chief Executive Officer (CEO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 8.0%
- Planned buyback = 600,000 shares

Based on the information above, Sinclair's earnings per share (EPS) after the repurchase of its common stock will be *closest* to:

A) $3.32.

B) $3.23.

C) $3.18.

Question #23 of 111

Question ID: 414843

Jayco, Inc. has a division that makes red ink for the accounting industry. The unit has fixed costs of $10,000 per month, and is expected to sell 40,000 bottles of ink per month. If the variable cost per bottle is $2.00 what price must the division charge in order to breakeven?

A) $2.75.

B) $2.25.

C) $2.50.

Question #24 of 111

Question ID: 414870

What is the impact on shareholder wealth of a share repurchase versus cash dividend of equal amount when the tax treatment of the two alternatives is the same?

A) A share repurchase will sometimes lead to higher total shareholder wealth than a cash dividend of an equal amount.

B) A share repurchase will always lead to higher total shareholder wealth than a cash dividend of an equal amount.

C) A share repurchase is equivalent to a cash dividend of an equal amount, so total shareholder wealth will be the same.

Question #25 of 111

Question ID: 485792

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 #26 of 111

Question ID: 414852

Stock splits:

A) increase firm value.

B) are less common than stock dividends.

C) do not in and of themselves affect firm value.

Question #27 of 111

Question ID: 414901

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.

Question #28 of 111

Question ID: 460672

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

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

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

Question #29 of 111

Question ID: 434358

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) 43.5%.

B) 27.9%.

C) 44.6%.

Question #30 of 111

Question ID: 414858

Which justification for repurchasing stock is the *least* valid?

A) A cash dividend increase, in response to short-term excess cash flows, may confuse investors.

B) Repurchases offer shareholders more choices than cash dividends.

C) Shareholders prefer capital gains to cash dividends.

Question #31 of 111

Question ID: 434344

Which type of cash dividend is *most likely* to be declared by a cyclical firm during good times?

A) Stock dividend.

B) Liquidating dividend.

C) Special dividend.

Question #32 of 111

Question ID: 485789

Myron Jackson is a private equity fund manager specializing in distressed companies. His investment philosophy is based on the principle that capital structure problems can be fixed, but industry characteristics dictate business models. Jackson would *most likely* be interested in distressed firms with which of the following characteristics?

A) High operating risk and high financial risk.

B) High financial risk and low operating risk.

C) High operating risk and low financial risk.

Question #33 of 111

Question ID: 414849

Steven's Bakery produces snack cakes and bread. Listed below are the operating costs for the snack cakes division and the bread division.

	Snack cakes	Bread
Price per package	$2.00	$2.50
Variable cost per package	$1.00	$1.30
Fixed operating costs	$25,000	$30,000
Fixed financing costs	$10,000	$10,000

Compared to the snack cakes division, the operating breakeven quantity for the bread division is:

A) greater.

B) the same.

C) less.

Question #34 of 111

Question ID: 414895

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) 9.60%.

B) 10.12%.

C) 9.73%.

Question #35 of 111

Question ID: 414831

Which of the following statements regarding leverage is *most* accurate?

A) High levels of financial leverage increase business risk while high levels of operating leverage will decrease business risk.

B) A firm with low operating leverage has a small proportion of its total costs in fixed costs.

C) A firm with high business risk is more likely to increase its use of financial leverage than a firm with low business risk.

Question #36 of 111

Question ID: 414838

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

A) firm earnings.

B) earnings per share.

C) the value of the firm.

Question #37 of 111

Question ID: 436851

Which of the following statements about a stock repurchase is *least* accurate?

A) A stock repurchase occurs when a large block of stock is removed from the marketplace.

B) Management can distribute cash to shareholders at a favorable after-tax rate.

C) Disgruntled stockholders are forced to sell their shares, improving management's position.

Question #38 of 111

Question ID: 414861

Which of the following is *least likely* a method by which firms repurchase their shares?

A) Exercise a call provision.

B) Direct negotiation.

C) Tender offer.

Question #39 of 111

Question ID: 414851

A periodic payment to shareholders in the form of additional shares of stock instead of cash is a:

A) dividend reinvestment plan

B) stock repurchase

C) stock dividend

Question #40 of 111

Question ID: 414903

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

A) factoring its receivables.

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

C) issuing commercial paper.

Question #41 of 111

Question ID: 434356

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

A) too high.

B) too low.

C) appropriate.

Question #42 of 111

Question ID: 414847

Yangtze Delta High Technology produces multimedia-enabled wireless phones. The factory incurs rent, depreciation, salary, and other fixed costs totaling RMB 10 million per year. Also, the company incurs annual interest of RMB 3 million on debt. Each phone sold by Yangtze Delta sells for RMB 200. The variable cost per phone is RMB 150. Yangtze Delta's operating breakeven quantity of sales is *closest to*:

A) 260,000.

B) 200,000.

C) 65,000.

Question #43 of 111

Question ID: 414873

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 #44 of 111

Question ID: 414899

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

A) Paying trade invoices on the day they arrive.

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

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

Question #45 of 111

Question ID: 414835

Jayco, Inc. sells 10,000 units at a price of $5 per unit. Jayco's fixed costs are $8,000, interest expense is $2,000, variable costs are $3 per unit, and earnings before interest and taxes (EBIT) is $12,000. What is Jayco's degree of financial leverage (DFL) and total leverage (DTL)?

	DFL	DTL
A)	1.33	1.75
B)	1.20	2.00

C) 1.33 2.00

Question #46 of 111

Question ID: 414830

Given the following information on the annual operating results for ArtFrames, a producer of quality metal picture frames, what is the degree of operating leverage (DOL) and the degree of financial leverage (DFL)?

- Sales of $3.5 million
- Variable Costs at 45% of sales
- Fixed Costs of $1.05 million
- Debt interest payments on $750,000 issued at par with an annual 9.0% coupon (current yield is 7.0%)

Which of the following choices is *closest* to the correct answer? ArtFrame's DOL and DFL are:

	DOL	DFL
A)	3.00	1.50
B)	2.20	1.50
C)	2.20	1.08

Question #47 of 111

Question ID: 414845

Annual fixed costs at King Mattress amount to $325,000. The variable cost of raw materials and labor is $120 for the typical mattress. Sales prices for mattresses average $160. How many units must King Mattress sell to break even?

A) 8,125.

B) 2,708.

C) 40.

Question #48 of 111

Question ID: 414815

All else equal, a firm's business risk is higher when:

A) variable costs are the highest portion of its expense.

B) the firm has low operating leverage.

C) fixed costs are the highest portion of its expense.

Question #49 of 111

Question ID: 414841

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) If a firm has a positive operating profit margin, using financial leverage will always increase ROE.

B) Using financial leverage increases the volatility of ROE for a level of volatility in operating income.

C) Increasing financial leverage increases both risk and potential return of existing bondholders.

Question #50 of 111

Question ID: 414894

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

A) a list of permissible securities.

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

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

Question #51 of 111

Question ID: 460670

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 because this transaction does not affect future cash flows.

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

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

Question #52 of 111

Question ID: 414855

The cut-off date for receiving the dividend is known as the:

A) date of payment.

B) holder of record date.

C) ex-dividend date.

Question #53 of 111

Question ID: 414816

Which of the following statements about business risk and financial risk is *least* accurate?

A) Business risk is the riskiness of the company's assets if it uses no debt.

B) The greater a company's business risk, the higher its optimal debt ratio.

C) Factors that affect business risk are demand, sales price, and input price variability.

Question #54 of 111

Question ID: 414867

The share prices of Solar Automotive Industries and Winnipeg Auto Unlimited are both $50 per share, and each company has 50 million shares outstanding. On September 30, both companies announced a $10 million stock buyback. Solar has a book value of $500 million, while Winnipeg has a book value of $900 million. How much did the book value per share (BVPS) of each company increase or decrease after the share repurchase?

	Solar Automotive Industries	Winnipeg Auto Unlimited
A)	Decrease by $0.13	Decrease by $0.13
B)	Increase by $0.13	Increase by $0.16
C)	Decrease by $0.16	Decrease by $0.13

Question #55 of 111

Question ID: 414817

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

A) business risk.

B) internal risk.

C) financial risk.

Question #56 of 111

Question ID: 414897

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 U.S. Treasury bill.

B) prefer the time deposit.

C) prefer the banker's acceptance.

Question #57 of 111

Question ID: 434355

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

A) receivables cycle.

B) inventory turnover cycle.

C) operating cycle.

Question #58 of 111

Question ID: 414881

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

A) Cash as a percentage of sales.

B) Inventory turnover.

C) Amount of credit sales.

Question #59 of 111

Question ID: 434354

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

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

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

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

Question #60 of 111

Question ID: 414822

The uncertainty in return on assets due to the nature of a firm's operations is known as:

A) tax efficiency.

B) financial leverage.

C) business risk.

Question #61 of 111

Question ID: 414819

Hughes Continental is assessing its business risk. Which of the following factors would *least likely* be considered in the analysis?

A) Debt-equity ratio.

B) Input price variability.

C) Unit sales levels.

Question #62 of 111

Question ID: 414868

The share price of Winnipeg Auto Unlimited is $5 per share. There are 50 million shares outstanding, and Winnipeg has a book value of $900 million. What is the book value per share (BVPS) after the share repurchase of $10 million?

A) $18.54.

B) $21.24.

C) $14.76.

Question #63 of 111

Question ID: 414874

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) drag on liquidity.

C) liquidity premium.

Question #64 of 111

Question ID: 434350

Pearl City Breweries has 8 million shares outstanding that are currently trading at $34 per share. The company is choosing whether to distribute $22 million as dividends or to use the same amount to repurchase its shares. Ignoring tax effects, what will be the amount of total wealth from owning one share of Pearl City Breweries under each of these alternatives?

	Cash dividend	Share repurchase
A)	$31.25	$34.00
B)	$31.25	$37.00

C) $34.00 $34.00

Question #65 of 111

Question ID: 414842

Wanton's San Y'isidro Co. manufactures custom door knobs for international clients. Average Revenue is $35 per unit, variable costs are $15 per unit, and total costs are $200,000. If sales are 10,000 units, what is the firm's breakeven sales quantity?

A) 2,500 units.

B) 3,000 units.

C) 1,750 units.

Question #66 of 111

Question ID: 414862

Laura's Chocolates, Inc. (LC), is a maker of nut-based toffees. LC is considering a share repurchase and prefers the "tender offer" method. Which of the following is also known as a "tender offer"?

A) Buying in the open market.

B) Repurchasing by direct negotiation.

C) Buying a fixed number of shares at a fixed price.

Question #67 of 111

Question ID: 414900

With respect to inventory management,:

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

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

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

Question #68 of 111

Question ID: 414834

An analyst has gathered the following expenditure information for three different firms, each of which has a sales level of $4 million.

Costs for firms under consideration (in millions)			
	Firm A	*Firm B*	*Firm C*
Variable Costs	$2.00	$2.60	$2.40
Fixed Costs	$1.00	$1.30	$1.40
Interest Expense	$0.20	$0.00	$0.20

Which firm has the *highest* degree of operating leverage (DOL)?

A) Firm B.

B) Firm A.

C) Firm C.

Question #69 of 111

Question ID: 434341

The combination of operating risk and sales risk is known as:

A) financial risk.

B) business risk.

C) gearing risk.

Question #70 of 111

Question ID: 414829

Stromburg Corporation's sales are $75,000,000. Fixed costs, including research and development, are $40,000,000, while variable costs amount to 30% of sales. Stromburg plans an expansion which will generate additional fixed costs of $15,000,000, decrease variable costs to 25% of sales, and permit sales to increase to $100,000,000. What is Stromburg's degree of operating leverage at the new projected sales level?

A) 3.75.

B) 3.50.

C) 4.20.

Question #71 of 111

Question ID: 434339

Which of the following sources of financing is *least likely* to increase a firm's financial risk?

A) Fixed-rate debt.

B) Common equity.

C) Operating leases.

Question #72 of 111

Question ID: 434357

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

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

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

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

Question #73 of 111

Question ID: 460668

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 inventory for Dunhill is less than for Pierce.

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

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

Question #74 of 111

Question ID: 414869

The current stock price of Westkirk is $50.00 per share. Book value of equity is $200 million and 10 million shares are outstanding. If Westkirk repurchases $25 million of their stock, the change in book value per share after the repurchase is *closest* to a(n):

A) decrease of $2.50.

B) decrease of $1.60.

C) increase of $1.10.

Question #75 of 111

Question ID: 414892

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 #76 of 111

Question ID: 414848

Nelson, Inc. has fixed financing costs of $3 million, fixed operating costs of $5 million, and variable costs of $2.00 per unit. If the price of Nelson's product is $4.00, Nelson's operating breakeven quantity of sales is:

A) 2.5 million units.

B) 1.0 million units.

C) 4.0 million units.

Question #77 of 111

Question ID: 414905

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) Factoring agreement.

B) Revolving line of credit.

C) Uncommitted line of credit.

Question #78 of 111

Question ID: 414888

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) borrowing funds though a bank line of credit.

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

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

Question #79 of 111

Question ID: 460671

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) appropriate because these are all safe, liquid securities.
B) inappropriate because both banker's acceptances and certificates of deposit are illiquid.
C) inappropriate because it is too restrictive.

Question #80 of 111

Question ID: 434340

The additional risk a firm's common shareholders must bear when a firm uses fixed cost financing is *best* described as:

A) financial risk.
B) business risk.
C) operating risk.

Question #81 of 111

Question ID: 414884

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	Decrease
C)	Increase	Increase

Question #82 of 111

Question ID: 414857

Which of the following shows the key dividend dates in their proper sequence?

A) Declaration date, holder-of-record date, ex-dividend date, payment date.
B) Declaration date, ex-dividend date, holder-of-record date, payment date.
C) Ex-dividend date, holder-of-record date, declaration date, payment date.

Question #83 of 111

Question ID: 414879

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 #84 of 111

Question ID: 434347

Pants R Us Inc.'s Board of Directors is considering repurchasing $30,000,000 worth of common stock. Pants R Us assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Pants R Us decides to borrow $30 million that it will use to repurchase shares. Pants R Us' Chief Investment Officer (CIO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 6.7%
- Planned buyback = 600,000 shares

Based on the information above, what will be Pants R Us' earnings per share (EPS) after the repurchase of its common stock?

A) $3.40.

B) $3.28.

C) $3.33.

Question #85 of 111

Question ID: 414878

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

A) quick ratio is lower.

B) average trade payables are lower.

C) receivables turnover is higher.

Question #86 of 111

Question ID: 414821

The two major types of risk affecting a firm are:

A) financial risk and cash flow risk.

B) business risk and financial risk.

C) business risk and collection risk.

Question #87 of 111

Question ID: 414880

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

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

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

C) inventories, which are not necessarily liquid.

Question #88 of 111

Question ID: 550542

Which of the following factors is *least likely* to affect business risk?

A) Operating leverage.

B) Interest rate variability.

C) Demand variability.

Question #89 of 111

Question ID: 434342

FCO, Inc. (FCO) is comparing EBIT forecasts to help determine the impact its capital structure has on net income.

	Expected EBIT	EBIT + 10%
EBIT	$80,000	$88,000
Interest expense	15,000	15,000
EBT	65,000	73,000
Taxes	26,000	29,200
Net income	39,000	43,800

Liabilities	200,000
Shareholder equity	250,000

Return on equity	15.60%

FCO's degree of financial leverage is *closest* to:

A) 0.80.

B) 0.60.

C) 1.25.

Question #90 of 111

Question ID: 414872

Ignoring tax consequences, given a choice between a cash dividend and a share repurchase of the same amount, a rational investor would:

A) be indifferent between a cash dividend and a share repurchase.

B) prefer a cash dividend to a share repurchase.

C) prefer a share repurchase to a cash dividend.

Question #91 of 111

Question ID: 414844

Annah Korotkin is the sole proprietor of CoverMeUp, a business that designs and sews outdoor clothing for dogs. Each year, she rents a booth at the regional Pet Expo and sells only blankets. Korotkin views the Expo as primarily a marketing tool and is happy to breakeven (that is, cover her booth rental). For the last 3 years, she has sold exactly enough blankets to cover the $750 booth rental fee. This year, she decided to make all blankets for the Expo out of high-tech waterproof/breathable material that is more expensive to produce, but that she believes she can sell for a higher profit margin. Information on the two types of blankets is as follows:

Per Unit	*Last Year's (Basic) Blanket*	*This Year's (New) Blanket*
Sales Price	$25	$40
Variable Cost	$20	$33

Assuming that Korotkin remains most interested in covering the booth cost (which has increased to $840), how many more or fewer blankets (new style) does she need to sell to cover the booth cost? To cover this year's booth costs, Korotkin needs to sell:

A) 30 fewer blankets than last year.

B) 42 more blankets than last year.

C) 42 fewer blankets than last year.

Question #92 of 111

Question ID: 414887

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 #93 of 111

Question ID: 414854

What is the earliest day on which an investor can currently purchase Amex, Inc., if the investor wants to avoid receiving a dividend and thereby avoid paying tax on the distribution, if the date of record is Thursday, October 31?

A) Thursday, October 24.

B) Tuesday, October 29.

C) Monday, October 28.

Question #94 of 111

Question ID: 414833

All else equal, which of the following statements about operating leverage is *least* accurate?

A) Operating leverage reflects the tradeoff between variable costs and fixed costs.

B) Firms with high operating leverage experience greater variance in operating income.

C) Lower operating leverage generally results in a higher expected rate of return.

Question #95 of 111

Question ID: 414893

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) 6.24%.

B) 6.02%.

C) 6.65%.

Question #96 of 111

Question ID: 414828

The following information reflects the projected operating results for Opstalan, a catalog printer.

- Sales of $5.0 million.

- Variable Costs at 40% of sales.
- Fixed Costs of $1.0 million.
- Debt interest payments on $1.5 million issued with an annual 7.0% coupon (current yield is 8.0%).
- Tax Rate of 0.0%.

Opstalan's degree of total leverage (DTL) is *closest* to:

A) 1.59.

B) 1.41.

C) 2.58.

Question #97 of 111

Question ID: 485790

Given the following information on the annual operating results for ArtFrames, a producer of quality metal picture frames:

- Sales of $3,500,000.
- Variable costs at 45% of sales.
- Fixed costs of $1,050,000.
- Debt interest payments on $750,000 issued at par with an annual 9.0% coupon; market yield is currently 7.0%.

ArtFrames's degree of operating leverage (DOL) and degree of financial leverage (DFL) are *closest to*:

	DOL	DFL
A)	2.20	1.08
B)	3.00	1.50
C)	2.20	1.50

Question #98 of 111

Question ID: 414875

An example of a primary source of liquidity is:

A) renegotiating debt agreements.

B) filing for bankruptcy.

C) using trade credit from vendors.

Question #99 of 111

Question ID: 414860

Jim Davis and Thurgood Owen, two equity analysts at Ferguson Capital Management, were reviewing the financial statements of

Peregrine Foodstuffs Ltd. Davis and Owen noticed that Peregrine has been repurchasing its common shares in the market over the past three years. Owen thought this was an important issue to look into in greater detail. Upon completion of his review, Owen made the following two statements:

Statement 1: Peregrine has bought back shares in the open market during its repurchase program. This method of repurchase gave the company the flexibility to choose the timing of the transaction.

Statement 2: Peregrine plans to buy back shares by making tender offers during the coming year. By making tender offers, the company will be able to repurchase shares at a discount to the prevailing market price.

With respect to Owen's statements:

A) only one is correct.
B) both are incorrect.
C) both are correct.

Question #100 of 111

Question ID: 434343

A company's use of financial leverage:

A) decreases default risk and decreases potential return on equity.
B) increases default risk and decreases potential return on equity.
C) increases default risk and increases potential return on equity.

Question #101 of 111

Question ID: 434348

Francis Investment Inc's Board of Directors is considering repurchasing $30,000,000 worth of common stock. Francis assumes that the stock can be repurchased at the market price of $50 per share. After much discussion Francis decides to borrow $30 million that it will use to repurchase shares. Francis' Chief Financial Officer (CFO) has compiled the following information regarding the repurchase of the firm's common stock:

- Share price at the time of buyback = $50
- Shares outstanding before buyback = 30,600,000
- EPS before buyback = $3.33
- Earnings yield = $3.33 / $50 = 6.7%
- After-tax cost of borrowing = 4%
- Planned buyback = 600,000 shares

Based on the information above, after the repurchase of its common stock, Francis' EPS will be *closest* to:

A) $3.36.

B) $3.39.

C) $3.41.

Question #102 of 111

Question ID: 414839

Financial leverage magnifies:

A) taxes.

B) operating income variability.

C) earnings per share variability.

Question #103 of 111

Question ID: 434345

The purchaser of a stock will receive the next dividend if the order is filled before the:

A) holder-of-record date.

B) ex-dividend date.

C) payment date.

Question #104 of 111

Question ID: 434353

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 paying its bills for raw materials more rapidly.

B) has improved its inventory turnover.

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

Question #105 of 111

Question ID: 434346

A company is most likely to use a Dutch auction when repurchasing shares:

A) with a tender offer.

B) by direct negotiation.

C) in the open market.

Question #106 of 111

Question ID: 414827

Which of the following statements about leverage is *most* accurate?

A) If the company has no debt outstanding, then its degree of total leverage equals its degree of operating leverage.

B) An increase in fixed costs (holding sales and variable costs constant) will reduce the company's degree of operating leverage.

C) A decrease in interest expense will increase the company's degree of total leverage.

Question #107 of 111

Question ID: 414896

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

A) money market yield greater than its discount yield.

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

C) discount yield greater than its bond equivalent yield.

Question #108 of 111

Question ID: 414824

As financial leverage increases, what will be the impact on the expected rate of return and financial risk?

A) Both will rise.

B) Both will fall.

C) One will rise while the other falls.

Question #109 of 111

Question ID: 414823

During a period of expansion in the economy, compared to firms with lower operating expense levels, earnings growth for firms with high operating leverage will be:

A) higher.

B) unaffected.

C) lower.

Question #110 of 111

Question ID: 414846

Jayco, Inc., sells blue ink for $4.00 a bottle. The ink's variable cost per bottle is $2.00. Ink has fixed cost of $10,000. What is Jayco's breakeven point in units?

A) 6,000.

B) 2,500.

C) 5,000.

Question #111 of 111

Question ID: 414825

If a 10% increase in sales causes EPS to increase from $1.00 to $1.50, and if the firm uses no debt, then what is its degree of operating leverage?

A) 4.2.

B) 4.7.

C) 5.0.