1. A stakeholder is:
   A. a creditor to whom a firm currently owes money.
   B. any person who has voting rights based on stock ownership of a corporation.
   C. any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm.
   D. a person who initially founded a firm and currently has management control over that firm.
   E. a person who owns shares of stock.

2. Al's Sport Store has sales of $897,400, costs of goods sold of $628,300, inventory of $208,400, and accounts receivable of $74,100. How many days, on average, does it take the firm to sell its inventory assuming that all sales are on credit?
   A. 74.19 days
   B. 151.21 days
   C. 138.46 days
   D. 121.07 days
   E. 84.76 days

3. On the Statement of Cash Flows, which of the following are considered financing activities?
   I. increase in long-term debt
   II. decrease in accounts payable
   III. interest paid
   IV. dividends paid
   A. III and IV only
   B. I, III, and IV only
   C. I and IV only
   D. I, II, III, and IV
   E. II and III only

4. Gladsden Refinishers currently has $21,900 in sales and is operating at 45 percent of the firm's capacity. What is the full capacity level of sales?
   A. $54,500
   B. $51,333
   C. $36,250
   D. $31,755
   E. $48,667

5. Which one of the following ratios identifies the amount of assets a firm needs in order to generate $1 in sales?
   A. equity multiplier
   B. retention ratio
   C. capital intensity ratio
   D. current ratio
   E. payout ratio

6. 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 have any interest expense. What is the operating cash flow?
   A. $171,852
   B. $129,152
   C. $281,417
   D. $309,076
   E. $179,924
7. Nielsen Auto Parts had beginning net fixed assets of $218,470 and ending net fixed assets of $209,411. During the year, assets with a combined book value of $6,943 were sold. Depreciation for the year was $42,822. What is the amount of net capital spending?

A. $40,706  
B. $58,218  
C. $33,763  
D. $65,161  
E. $67,408

8. Cash flow to stockholders is defined as:

A. operating cash flow minus the cash flow to creditors.  
B. the total amount of interest and dividends paid during the past year.  
C. cash flow from assets plus the cash flow to creditors.  
D. the change in total equity over the past year.  
E. dividend payments less net new equity raised.

9. A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a:

A. generally partner.  
B. limited partner.  
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D. corporate shareholder.  
E. sole proprietor.

10. Which of the following questions are addressed by financial managers?
I. How should a product be marketed?  
II. Should customers be given 30 or 45 days to pay for their credit purchases?  
III. Should the firm borrow more money?  
IV. Should the firm acquire new equipment?

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

11. Which of the following can be used to compute the return on equity?
I. Profit margin × Return on assets  
II. Return on assets × Equity multiplier  
III. Net income/Total equity  
IV. Return on assets × Total asset turnover

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

12. Which of the following accounts are included in working capital management?
I. accounts payable  
II. accounts receivable  
III. fixed assets  
IV. inventory

A. I and III only  
B. I, II, and IV only  
C. I and II only  
D. II, III, and IV only  
E. II and IV only
13. Which one of the following best states the primary goal of financial management?
   A. increase cash flow and avoid financial distress
   B. maximize current dividends per share
   C. maintain steady growth while increasing current profits
   D. minimize operational costs while maximizing firm efficiency
   E. maximize the current value per share

14. Last year, which is used as the base year, a firm had cash of $52, accounts receivable of $218, inventory of $509, and net fixed assets of $1,107. This year, the firm has cash of $61, accounts receivable of $198, inventory of $527, and net fixed assets of $1,216. What is the common-base year value of accounts receivable?
   A. 1.18
   B. 0.88
   C. 0.10
   D. 0.08
   E. 0.91

15. Which of the following ratios are measures of a firm's liquidity?
   I. cash coverage ratio
   II. interval measure
   III. debt-equity ratio
   IV. quick ratio
   A. I, III, and IV only
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   C. II and IV only
   D. I, II, III, and IV
   E. I and III only

16. 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. $111,500
   B. $75,600
   C. $25,300
   D. $86,300
   E. $30,300

17. The cash flow related to interest payments less any net new borrowing is called the:
   A. cash flow to creditors.
   B. net working capital.
   C. capital spending cash flow.
   D. operating cash flow.
   E. cash flow from assets.

18. Adelson's Electric had beginning long-term debt of $42,511 and ending long-term debt of $48,919. The beginning and ending total debt balances were $84,652 and $78,613, respectively. The interest paid was $4,767. What is the amount of the cash flow to creditors?
   A. $1,272
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   C. $7,418
   D. $11,175
   E. -$1,641
19. Which one of the following is a use of cash?
   A. increase in long-term debt
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   A. net use of cash of $37
   B. net source of cash of $135
   C. net use of cash of $83
   D. net source of cash of $111
   E. net source of cash of $83

21. Given the tax rates as shown, what is the average tax rate for a firm with taxable income of $311,360?

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   A. 33.62 percent
   B. 35.48 percent
   C. 31.09 percent
   D. 39.00 percent
   E. 28.25 percent

22. Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes.
   I. compensation based on the value of the stock
   II. stock option plans
   III. threat of a company takeover
   IV. threat of a proxy fight

   A. I and II only
   B. I, III, and IV only
   C. I, II, III, and IV
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23. Which one of the following terms is defined as the management of a firm's long-term investments?

   A. capital structure
   B. capital budgeting
   C. financial allocation
   D. agency cost analysis
   E. working capital management
24. The higher the degree of financial leverage employed by a firm, the:
   A. higher the number of outstanding shares of stock.
   B. higher the probability that the firm will encounter financial distress.
   C. less debt a firm has per dollar of total assets.
   D. lower the balance in accounts payable.
   E. lower the amount of debt incurred.

25. Which one of the following functions should be the responsibility of the controller rather than the treasurer?
   A. customer credit approval
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26. Noncash items refer to:
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   E. sales which are made using store credit.

27. A firm has total assets of $311,770 and net fixed assets of $167,532. The average daily operating costs are $2,980. What is the value of the interval measure?
   A. 31.47 days
   B. 48.40 days
   C. 56.22 days
   D. 104.62 days
   E. 68.05 days

28. Which one of the following accounts is the most liquid?
   A. inventory
   B. accounts receivable
   C. equipment
   D. land
   E. building

29. Tobin's Q relates the market value of a firm's assets to which one of the following?
   A. today's cost to duplicate those assets
   B. average market value of similar firms
   C. average asset value of similar firms
   D. initial cost of creating the firm
   E. current book value of the firm

30. Wagner Industrial Motors, which is currently operating at full capacity, has sales of $29,000, current assets of $1,600, current liabilities of $1,200, net fixed assets of $27,500, and a 5 percent profit margin. The firm has no long-term debt and does not plan on acquiring any. The firm does not pay any dividends. Sales are expected to increase by 4.5 percent next year. If all assets, short-term liabilities, and costs vary directly with sales, how much additional equity financing is required for next year?
   A. $967.30
   B. $1,515.25
   C. -$201.19
   D. $1,099.08
   E. -$259.75
31. Which one of the following is a primary market transaction?
   A. sale of a new share of stock to an individual investor
   B. gift of stock by a shareholder to a family member
   C. gift of stock from one shareholder to another shareholder
   D. stock ownership transfer from one shareholder to another shareholder
   E. sale of currently outstanding stock by a dealer to an individual investor

32. 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, II, III, and IV
   B. II, III, and IV only
   C. I, III, and IV only
   D. II and III only
   E. I and IV only
1. A stakeholder is:
   A. a creditor to whom a firm currently owes money.
   B. any person who has voting rights based on stock ownership of a corporation.
   C. any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm.
   D. a person who initially founded a firm and currently has management control over that firm.
   E. a person who owns shares of stock.

Refer to section 1.4

2. Al's Sport Store has sales of $897,400, costs of goods sold of $628,300, inventory of $208,400, and accounts receivable of $74,100. How many days, on average, does it take the firm to sell its inventory assuming that all sales are on credit?

   A. 74.19 days
   B. 151.21 days
   C. 138.46 days
   D. 121.07 days
   E. 84.76 days

Inventory turnover = $628,300/$208,400 = 3.014875
Days in inventory = 365/3.014875 = 121.07 days
3. On the Statement of Cash Flows, which of the following are considered financing activities?
   I. increase in long-term debt
   II. decrease in accounts payable
   III. interest paid
   IV. dividends paid
   
   A. III and IV only
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   Refer to section 3.1

4. Gladsden Refinishers currently has $21,900 in sales and is operating at 45 percent of the firm's capacity. What is the full capacity level of sales?
   
   A. $54,500
   B. $51,333
   C. $36,250
   D. $31,755
   E. $48,667

   Full-capacity sales = $21,900/0.45 = $48,667

5. Which one of the following ratios identifies the amount of assets a firm needs in order to generate $1 in sales?
   
   A. equity multiplier
   B. retention ratio
   C. capital intensity ratio
   D. current ratio
   E. payout ratio

   Refer to section 4.3
6. 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 have any interest expense. What is the operating cash flow?

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

   Earnings before interest and taxes = $1,349,800 - $903,500 - $42,700 = $403,600
   Tax = $403,600 × .34 = $137,224
   Operating cash flow = $403,600 + $42,700 - $137,224 = $309,076

7. Nielsen Auto Parts had beginning net fixed assets of $218,470 and ending net fixed assets of $209,411. During the year, assets with a combined book value of $6,943 were sold. Depreciation for the year was $42,822. What is the amount of net capital spending?

   A. $40,706  
   B. $58,218  
   C. $33,763  
   D. $65,161  
   E. $67,408

   Net capital spending = $209,411 - $218,470 + $42,822 = $33,763

8. Cash flow to stockholders is defined as:

   A. operating cash flow minus the cash flow to creditors.
   B. the total amount of interest and dividends paid during the past year.
   C. cash flow from assets plus the cash flow to creditors.
   D. the change in total equity over the past year.
   E. dividend payments less net new equity raised.

   Refer to section 2.4
9. A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a:

A. generally partner.
B. limited partner.
C. zero partner.
D. corporate shareholder.
E. sole proprietor.

Refer to section 1.2

10. Which of the following questions are addressed by financial managers?
I. How should a product be marketed?
II. Should customers be given 30 or 45 days to pay for their credit purchases?
III. Should the firm borrow more money?
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A. I, II, III, and IV
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Refer to section 1.1

11. Which of the following can be used to compute the return on equity?
I. Profit margin × Return on assets
II. Return on assets × Equity multiplier
III. Net income/Total equity
IV. Return on assets × Total asset turnover

A. I, II, III, and IV
B. II and III only
C. I, II, and III only
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Refer to section 3.4
12. Which of the following accounts are included in working capital management?
I. accounts payable
II. accounts receivable
III. fixed assets
IV. inventory

A. I and III only
B. I, II, and IV only
C. I and II only
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13. Which one of the following best states the primary goal of financial management?
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B. maximize current dividends per share
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Refer to section 1.3

14. Last year, which is used as the base year, a firm had cash of $52, accounts receivable of $218, inventory of $509, and net fixed assets of $1,107. This year, the firm has cash of $61, accounts receivable of $198, inventory of $527, and net fixed assets of $1,216. What is the common-base year value of accounts receivable?

A. 1.18
B. 0.88
C. 0.10
D. 0.08
E. 0.91

Common-base year accounts receivable = $198/$218 = 0.91

AACSB: N/A
Bloom's: Knowledge
Difficulty: Basic
Learning Objective: 1-1
Ross - Chapter 01 #18
Section: 1.1
Topic: Working capital management

AACSB: N/A
Bloom's: Knowledge
Difficulty: Basic
Learning Objective: 1-2
Ross - Chapter 01 #37
Section: 1.3
Topic: Goal of financial management

AACSB: Analytic
Bloom's: Application
Difficulty: Basic
Learning Objective: 3-1
Ross - Chapter 03 #53
Section: 3.2
Topic: Common-base year statement
15. Which of the following ratios are measures of a firm's liquidity?
I. cash coverage ratio
II. interval measure
III. debt-equity ratio
IV. quick ratio

A. I, III, and IV only
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Refer to section 3.3

16. 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. $111,500
B. $75,600
C. $25,300
D. $86,300
E. $30,300

Current liabilities = .60 × $126,000 = $75,600
Total assets = $141,800 + $126,000 = $267,800
Current assets = $267,800 - $161,900 = $105,900
Net working capital = $105,900 - $75,600 = $30,300

17. The cash flow related to interest payments less any net new borrowing is called the:

A. cash flow to creditors.
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C. capital spending cash flow.
D. operating cash flow.
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A. $1,272  
B. -$1,272  
C. $7,418  
D. $11,175  
E. -$1,641

Cash flow to creditors = $4,767 - ($48,919 - $42,511) = -$1,641

19. Which one of the following is a use of cash?

A. increase in long-term debt  
B. increase in notes payable  
C. decrease in common stock  
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A. net use of cash of $37  
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**A. 33.62 percent**  
B. 35.48 percent  
C. 31.09 percent  
D. 39.00 percent  
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Tax = .15($50,000) + .25($25,000) + .34($25,000) + .39($211,360) = $104,680.40  
Average tax rate = $104,680.40/$311,360 = 33.62 percent
22. Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes.
I. compensation based on the value of the stock
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E. sales which are made using store credit.

Refer to section 2.2

27. A firm has total assets of $311,770 and net fixed assets of $167,532. The average daily operating costs are $2,980. What is the value of the interval measure?

A. 31.47 days  
B. 48.40 days  
C. 56.22 days  
D. 104.62 days  
E. 68.05 days

Interval measure = \( \frac{($311,770 - $167,532)}{2,980} \) = 48.40 days

AACSB: Analytic  
Bloom’s: Application  
Difficulty: Basic  
Learning Objective: 3-2  
Ross - Chapter 03 #56  
Section: 3.3  
Topic: Liquidity ratios
28. Which one of the following accounts is the most liquid?
   A. inventory
   B. accounts receivable
   C. equipment
   D. land
   E. building

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29. Tobin's Q relates the market value of a firm's assets to which one of the following?
   A. today's cost to duplicate those assets
   B. average market value of similar firms
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   A. $967.30
   B. $1,515.25
   C. $201.19
   D. $1,099.08
   E. $259.75

   Projected assets = ($1,600 + $27,500) × 1.045 = $30,409.50
   Projected liabilities = $1,200 × 1.045 = $1,254
   Current equity = $1,600 + $27,500 - $1,200 = $27,900
   Projected increase in retained earnings = $29,000 × .05 × 1.045 = $1,515.25
   Equity funding need = $30,409.50 - $1,254 - $27,900 - $1,515.25 = -$259.75
31. Which one of the following is a primary market transaction?
A. sale of a new share of stock to an individual investor
B. gift of stock by a shareholder to a family member
C. gift of stock from one shareholder to another shareholder
D. stock ownership transfer from one shareholder to another shareholder
E. sale of currently outstanding stock by a dealer to an individual investor

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