

Student: \_\_\_\_\_

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?
- \$40,706
  - \$58,218
  - \$33,763
  - \$65,161
  - \$67,408
8. Cash flow to stockholders is defined as:
- operating cash flow minus the cash flow to creditors.
  - the total amount of interest and dividends paid during the past year.
  - cash flow from assets plus the cash flow to creditors.
  - the change in total equity over the past year.
  - 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:
- generally partner.
  - limited partner.
  - zero partner.
  - corporate shareholder.
  - sole proprietor.
10. Which of the following questions are addressed by financial managers?
- How should a product be marketed?
  - Should customers be given 30 or 45 days to pay for their credit purchases?
  - Should the firm borrow more money?
  - Should the firm acquire new equipment?
- I, II, III, and IV
  - I, II, and III only
  - II, III, and IV only
  - I and IV only
  - II and III only
11. Which of the following can be used to compute the return on equity?
- Profit margin  $\times$  Return on assets
  - Return on assets  $\times$  Equity multiplier
  - Net income/Total equity
  - Return on assets  $\times$  Total asset turnover
- I, II, III, and IV
  - II and III only
  - I, II, and III only
  - I and III only
  - II and IV only
12. Which of the following accounts are included in working capital management?
- accounts payable
  - accounts receivable
  - fixed assets
  - inventory
- I and III only
  - I, II, and IV only
  - I and II only
  - II, III, and IV only
  - 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
  - B. I, II, and III only
  - 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
  - B. -\$1,272
  - C. \$7,418
  - D. \$11,175
  - E. -\$1,641

19. Which one of the following is a use of cash?
- increase in long-term debt
  - increase in notes payable
  - decrease in common stock
  - decrease in inventory
  - decrease in accounts receivables
20. Wise's Corner Grocer had the following current account values. What effect did the change in net working capital have on the firm's cash flows for 2009?

	<u>2008</u>	<u>2009</u>
Cash	87	112
Accounts receivable	309	321
Inventory	919	868
Accounts payable	\$617	\$714

- net use of cash of \$37
  - net source of cash of \$135
  - net use of cash of \$83
  - net source of cash of \$111
  - 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?

<u>Taxable Income</u>	<u>Tax Rate</u>
\$0 - 50,000	15%
50,001 - 75,000	25%
75,001 - 100,000	34%
100,001 - 335,000	39%

- 33.62 percent
  - 35.48 percent
  - 31.09 percent
  - 39.00 percent
  - 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.
- compensation based on the value of the stock
  - stock option plans
  - threat of a company takeover
  - threat of a proxy fight
- I and II only
  - I, III, and IV only
  - I, II, III, and IV
  - III and IV only
  - I, II, and III only
23. Which one of the following terms is defined as the management of a firm's long-term investments?
- capital structure
  - capital budgeting
  - financial allocation
  - agency cost analysis
  - working capital management

24. The higher the degree of financial leverage employed by a firm, the:
- higher the number of outstanding shares of stock.
  - higher the probability that the firm will encounter financial distress.
  - less debt a firm has per dollar of total assets.
  - lower the balance in accounts payable.
  - lower the amount of debt incurred.
25. Which one of the following functions should be the responsibility of the controller rather than the treasurer?
- customer credit approval
  - payment to a vendor
  - equipment purchase analysis
  - daily cash deposit
  - income tax returns
26. Noncash items refer to:
- inventory items purchased using credit.
  - the ownership of intangible assets such as patents.
  - expenses which do not directly affect cash flows.
  - accrued expenses.
  - 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?
- 31.47 days
  - 48.40 days
  - 56.22 days
  - 104.62 days
  - 68.05 days
28. Which one of the following accounts is the most liquid?
- inventory
  - accounts receivable
  - equipment
  - land
  - building
29. Tobin's Q relates the market value of a firm's assets to which one of the following?
- today's cost to duplicate those assets
  - average market value of similar firms
  - average asset value of similar firms
  - initial cost of creating the firm
  - 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?
- \$967.30
  - \$1,515.25
  - \$201.19
  - \$1,099.08
  - \$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

## 9901\_1 Key

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

*AACSB: Ethics  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-4  
Ross - Chapter 01 #9  
Section: 1.4  
Topic: Stakeholder*

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

*AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 3-2  
Ross - Chapter 03 #61  
Section: 3.3  
Topic: Asset utilization ratios*

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

Refer to section 3.1

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 3-1  
Ross - Chapter 03 #12  
Section: 3.1  
Topic: Statement of cash flows

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 =  $\$21,900 / 0.45 = \$48,667$

AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 4-1  
Ross - Chapter 04 #47  
Section: 4.3  
Topic: Full capacity sales

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

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 4-1  
Ross - Chapter 04 #6  
Section: 4.3  
Topic: Capital intensity 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

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

*AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 2-4  
Ross - Chapter 02 #59  
Section: 2.4  
Topic: OCF*

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

*AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 2-4  
Ross - Chapter 02 #60  
Section: 2.4  
Topic: Net capital spending*

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

*AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 2-4  
Ross - Chapter 02 #12  
Section: 2.4  
Topic: Cash flow to stockholders*

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

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-3  
Ross - Chapter 01 #6  
Section: 1.2  
Topic: Limited partner

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

Refer to section 1.1

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-1  
Ross - Chapter 01 #10  
Section: 1.1  
Topic: Financial management

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

Refer to section 3.4

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 3-3  
Ross - Chapter 03 #41  
Section: 3.4  
Topic: Du Pont identity

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

Refer to section 1.1

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

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**

Refer to section 1.3

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

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

Refer to section 3.3

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 3-2  
Ross - Chapter 03 #19  
Section: 3.3  
Topic: Liquidity ratios

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

AACSB: Analytic  
Bloom's: Analysis  
Difficulty: Intermediate  
Learning Objective: 2-1  
Ross - Chapter 02 #50  
Section: 2.1  
Topic: Net working capital

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.

Refer to section 2.4

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 2-4  
Ross - Chapter 02 #11  
Section: 2.4  
Topic: Cash flow to creditors

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
  - B. -\$1,272
  - C. \$7,418
  - D. \$11,175
  - E. -\$1,641**

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

*AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 2-4  
Ross - Chapter 02 #63  
Section: 2.4  
Topic: Cash flow to creditors*

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**
  - D. decrease in inventory
  - E. decrease in accounts receivables

Refer to section 3.1

*AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 3-1  
Ross - Chapter 03 #9  
Section: 3.1  
Topic: Uses of cash*

20. Wise's Corner Grocer had the following current account values. What effect did the change in net working capital have on the firm's cash flows for 2009?

	<u>2008</u>	<u>2009</u>
Cash	87	112
Accounts receivable	309	321
Inventory	919	868
Accounts payable	\$617	\$714

- 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

		<u>Source</u>	<u>Use</u>
Cash	$\$112 - \$87 = \$25$		\$25
Accounts receivable	$\$321 - \$309 = \$12$		12
Inventory	$\$868 - \$919 = -\$51$	\$51	
Accounts payable	$\$714 - \$617 = \$97$	97	
Net source of cash =	$\$97 + \$51 - \$12 - \$25 = \$111$		

*AACSB: Analytic  
 Bloom's: Application  
 Difficulty: Basic  
 Learning Objective: 3-1  
 Ross - Chapter 03 #48  
 Section: 3.1  
 Topic: Sources and uses of cash*

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

<u>Taxable Income</u>	<u>Tax Rate</u>
\$0 - 50,000	15%
50,001 - 75,000	25%
75,001 - 100,000	34%
100,001 - 335,000	39%

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

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

*AACSB: Analytic  
 Bloom's: Application  
 Difficulty: Basic  
 Learning Objective: 2-3  
 Ross - Chapter 02 #56  
 Section: 2.3  
 Topic: Average tax rate*

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**
  - D. III and IV only
  - E. I, II, and III only

Refer to section 1.4

*AACSB: Ethics  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-4  
Ross - Chapter 01 #46  
Section: 1.4  
Topic: Agency problem*

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

Refer to section 1.1

*AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-1  
Ross - Chapter 01 #1  
Section: 1.1  
Topic: Capital budgeting*

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.

Refer to section 2.1

*AACSB: N/A  
Bloom's: Comprehension  
Difficulty: Intermediate  
Learning Objective: 2-1  
Ross - Chapter 02 #24  
Section: 2.1  
Topic: Financial leverage*

25. Which one of the following functions should be the responsibility of the controller rather than the treasurer?
- A. customer credit approval
  - B. payment to a vendor
  - C. equipment purchase analysis
  - D. daily cash deposit
  - E. income tax returns**

Refer to section 1.1

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 1-1  
Ross - Chapter 01 #11  
Section: 1.1  
Topic: Financial management

26. Noncash items refer to:
- A. inventory items purchased using credit.
  - B. the ownership of intangible assets such as patents.
  - C. expenses which do not directly affect cash flows.**
  - D. accrued expenses.
  - E. sales which are made using store credit.

Refer to section 2.2

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 2-2  
Ross - Chapter 02 #5  
Section: 2.2  
Topic: Noncash items

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 =  $(\$311,770 - \$167,532)/\$2,980 = 48.40$  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

Refer to section 2.1

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 2-1  
Ross - Chapter 02 #20  
Section: 2.1  
Topic: Liquidity

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

Refer to section 3.3

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 3-2  
Ross - Chapter 03 #36  
Section: 3.3  
Topic: Market value ratios

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**

$$\text{Projected assets} = (\$1,600 + \$27,500) \times 1.045 = \$30,409.50$$

$$\text{Projected liabilities} = \$1,200 \times 1.045 = \$1,254$$

$$\text{Current equity} = \$1,600 + \$27,500 - \$1,200 = \$27,900$$

$$\text{Projected increase in retained earnings} = \$29,000 \times .05 \times 1.045 = \$1,515.25$$

$$\text{Equity funding need} = \$30,409.50 - \$1,254 - \$27,900 - \$1,515.25 = -\$259.75$$

AACSB: Analytic  
Bloom's: Application  
Difficulty: Basic  
Learning Objective: 4-2  
Ross - Chapter 04 #45  
Section: 4.2  
Topic: Equity financing

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

Refer to section 1.5

AACSB: N/A  
Bloom's: Comprehension  
Difficulty: Basic  
Learning Objective: 1-3  
Ross - Chapter 01 #56  
Section: 1.5  
Topic: Primary market

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

Refer to the introduction to chapter 4

AACSB: N/A  
Bloom's: Knowledge  
Difficulty: Basic  
Learning Objective: 4-1  
Ross - Chapter 04 #9  
Section: Introduction to chapter 4  
Topic: Financial planning

## 9901\_1 Summary

<i>Category</i>	<i># of Questions</i>
AACSB: Analytic	11
AACSB: Ethics	2
AACSB: N/A	19
Bloom's: Analysis	1
Bloom's: Application	10
Bloom's: Comprehension	2
Bloom's: Knowledge	19
Difficulty: Basic	30
Difficulty: Intermediate	2
Learning Objective: 1-1	4
Learning Objective: 1-2	1
Learning Objective: 1-3	2
Learning Objective: 1-4	2
Learning Objective: 2-1	3
Learning Objective: 2-2	1
Learning Objective: 2-3	1
Learning Objective: 2-4	5
Learning Objective: 3-1	4
Learning Objective: 3-2	4
Learning Objective: 3-3	1
Learning Objective: 4-1	3
Learning Objective: 4-2	1
Ross - Chapter 01	9
Ross - Chapter 02	10
Ross - Chapter 03	9
Ross - Chapter 04	4
Section: 1.1	4
Section: 1.2	1
Section: 1.3	1
Section: 1.4	2
Section: 1.5	1
Section: 2.1	3
Section: 2.2	1
Section: 2.3	1
Section: 2.4	5
Section: 3.1	3
Section: 3.2	1
Section: 3.3	4
Section: 3.4	1
Section: 4.2	1
Section: 4.3	2
Section: Introduction to chapter 4	1
Topic: Agency problem	1
Topic: Asset utilization ratios	1
Topic: Average tax rate	1
Topic: Capital budgeting	1
Topic: Capital intensity ratio	1
Topic: Cash flow to creditors	2

Topic: Cash flow to stockholders	1
Topic: Common-base year statement	1
Topic: Du Pont identity	1
Topic: Equity financing	1
Topic: Financial leverage	1
Topic: Financial management	2
Topic: Financial planning	1
Topic: Full capacity sales	1
Topic: Goal of financial management	1
Topic: Limited partner	1
Topic: Liquidity	1
Topic: Liquidity ratios	2
Topic: Market value ratios	1
Topic: Net capital spending	1
Topic: Net working capital	1
Topic: Noncash items	1
Topic: OCF	1
Topic: Primary market	1
Topic: Sources and uses of cash	1
Topic: Stakeholder	1
Topic: Statement of cash flows	1
Topic: Uses of cash	1
Topic: Working capital management	1