



Question 4: A firm with negative net working capital _____.

(1 Point)

- a. Will definitely run short of cash over the next six months.
- b. Has less current liabilities than current assets.
- c. Has less long-term debt than long-term assets.
- d. Has less current assets than current liabilities.
- e. Is technically bankrupt.

Question 5: RDJ Manufacturing had 480 million shares of stock outstanding at the end of 2018. During 2018, the company reported net income of \$960 million, and \$480 million in dividends paid. What is RDJ's earnings per share?

(1 Point)

- a. \$0.50
- b. \$0.67
- c. \$1.00
- d. \$1.25
- e. \$2.00

Question 6: Given the following statement of financial position data, calculate net working capital: cash equals \$110, accounts receivable equals \$410, inventory equals \$350, net fixed assets equals \$1,000, accounts payable equals \$60, short-term debt equals \$375, and long-term debt equals \$510.

(1 Point)

- a. \$435
- b. \$1,435
- c. \$1,870
- d. \$1,925
- e. \$2,435

Question 7: If net income equals \$46,750, EBIT equals \$60,000, depreciation expense equals \$10,000, interest expense equals \$5,000, and the tax rate equals 15%, what is operating cash flow?

(1 Point)

- a. \$60,000
- b. \$61,750
- c. \$66,750
- d. \$76,750
- e. \$86,750

Question 8: Tim's Playhouse paid \$255 in dividends and \$220 in interest expense. The addition to retained earnings is \$325. The tax rate is 25 percent. Sales are \$1,600, depreciation is \$160, and there are other costs but you are not given this amount. What are the earnings before interest and taxes?

(1 Point)

- a. \$773
- b. \$965
- c. \$993
- d. \$1,440
- e. None of the above is correct.

Question 9: Leaf Inc. of Kingston has a total asset turnover rate of 1.52 and a fixed asset turnover rate of 3.04. From this information, you know that the:

(1 Point)

- a. Firm utilizes its assets more efficiently than a firm with a total asset turnover of 1.75.
- b. Value of the current assets is equal to the value of the net fixed assets.
- c. Annual sales are less than the value of the total assets of the firm.
- d. Fixed assets equal 304 percent of the annual sales amount.



Question 10: If a firm produces a 20 percent return on assets and also a 20 percent return on equity, then the firm:

(1 Point)

- a. Has an equity multiplier of 2.
- b. Also has a current ratio of 20.
- c. Is using its assets as efficiently as possible.
- d. Has no net working capital.
- e. Has no debt of any kind.

Question 11: Which of the following would result in a higher profit margin, all else the same?

(1 Point)

- I. A decrease in cost of goods sold.
- II. A higher corporate tax rate.
- III. An increase in cost of goods sold.

- a. I only.
- b. II only.
- c. III only.
- d. I and III only.
- e. II and III only.

Question 12: Which one of the following statements is correct if a firm has a receivables turnover measure of 6?

(1 Point)

- a. It takes a firm 61 days to sell its inventory and collect the payment from the sale.
- b. It takes a firm 61 days to pay its creditors.
- c. The firm has six times more in accounts receivable than it does in cash.
- d. The firm has an average collection period of 61 days.
- e. It takes a firm 6 days to collect payment from its customers.

Question 13: Jorge Corp. of North Bay has 80,000 shares outstanding. Sales are \$5 million, EBIT is \$1 million, and interest paid is \$200,000. The firm pays 10% of its earnings as dividends. If the corporate tax rate is 34%, what is Jorge's earnings per share?

(1 Point)

- a. \$20.00
- b. \$13.20
- c. \$10.56
- d. \$6.60
- e. \$5.44

Question 14: Earnings before interest and taxes is \$74,300. Interest is \$9,229 and depreciation is \$8,300. The tax rate is 34%. What is the cash coverage ratio?

(1 Point)

- a. 8.52
- b. 8.95
- c. 9.52
- d. 9.95
- e. 10.12

Question 15: Martin's Method Acting School has net income of \$180,000, a profit margin of 10%, an accounts payable balance of \$60,100, and an accounts receivable balance of \$172,602. What is the firm's approximate days sales outstanding?

(1 Point)

- a. 12 days
- b. 24 days
- c. 35 days
- d. 43 days



Question 16: A firm has total debt of \$1,850 and a debt-equity ratio of 0.54. What is the value of the total assets?

- (1 Point)
- a. \$999.00
 - b. \$1,575.93
 - c. \$3,425.93
 - d. \$4,740.63
 - e. \$5,275.93

Question 17: Little's Inc. provides a 10% return on equity. Sales are \$62,963 on total assets of \$140,000 and total equity of \$85,000. What is the profit margin?

- (1 Point)
- a. 6.80%
 - b. 8.50%
 - c. 11.33%
 - d. 13.50%
 - e. None of the above is correct.

Question 18: Future value is best defined as:

- (1 Point)
- a. The amount an investment is worth at the end of some stated period of time.
 - b. An amount of money received each period for a stated number of periods.
 - c. The dollar amount invested today at a stated rate of interest for some period of time.
 - d. The amount an investment is worth in today's dollars.
 - e. The cash value of an investment in today's dollars based on a stated rate of interest.

Question 19: Isabelle wants to invest \$1,000. She wants to withdraw her money three years from now. Which bank should she use if she wishes to maximize her investment?

- (1 Point)
- a. Bank A, which offers a simple rate of 5%.
 - b. Bank B, which offers a simple rate of 6%.
 - c. Bank C, which offers a rate of 5% compounded annually.
 - d. Bank D, which offers a rate of 6% compounded annually.
 - e. Bank E, which offers a rate of 6% compounded monthly.

Question 20: Katie is going to receive \$1,000 five years from now. Wilt is going to receive \$1,000 three years from now. Which one of the following statements is correct if both Katie and Wilt apply the same discount rate to these amounts?

- (1 Point)
- a. The value of Wilt's money will be less than the value of Katie's money six years from now.
 - b. In five years, the value of Katie's money will be equal to the value of Wilt's money.
 - c. The present value of Katie and Wilt's money is equal.
 - d. Katie's money is worth more than Wilt's money today.
 - e. In today's dollars, Wilt's money is worth more than Katie's.

Question 21: The future value will increase:

- (1 Point)
- I. The longer the period of time.
 - II. The shorter the period of time.
 - III. The higher the rate of interest.
 - IV. The lower the rate of interest.
- a. II and IV only.
 - b. I and III only.
 - c. III only.
 - d. II only.



Question 22: What is the present value of \$2,800 to be received four years from now if the discount rate is 9.5%?

(1 Point)

- a. \$3,066.00
- b. \$2,557.08
- c. \$2,335.23
- d. \$2,132.63
- e. \$1,947.61

Question 23: Robin invested \$5,000 in an account that pays 5% simple interest. How much more could she have earned over a 30-year period if the interest had compounded annually?

(1 Point)

- a. \$20,199.94
- b. \$15,199.94
- c. \$9,109.71
- d. \$4,109.71
- e. None of the above is correct.

Question 24: Isaac and Faith both want to have \$5,000 in three years. Isaac expects to earn 7% on his investments and Faith expects an 8% rate of return. Which one of the following statements is correct concerning the amount of money they each need to invest today?

(1 Point)

- a. Faith needs to deposit \$3,081.49 today.
- b. Faith needs to deposit \$112.33 more than Isaac today.
- c. Isaac needs to deposit \$112.33 more than Faith today.
- d. Isaac needs to deposit \$2,969.16 today.
- e. Both Faith and Isaac should deposit \$3,969.16 today.

Question 25: Your grandmother invested one lump sum 17 years ago at 4.25% interest. Today, she gave you the proceeds of that investment which totaled \$5,539.92. How much did your grandmother originally invest?

(1 Point)

- a. \$2,730.30
- b. \$2,750.00
- c. \$2,768.40
- d. \$2,846.34
- e. \$2,967.31

Question 26: Which one of the following is a correct definition?

(1 Point)

- a. An ordinary annuity is an infinite stream of equal payments which occur at the end of each time period.
- b. An ordinary annuity is a finite stream of equal payments which occur at the end of each time period.
- c. A perpetuity is an infinite stream of unequal payments.
- d. A perpetuity is a series of equal payments which occur in even time intervals over a limited period of time.
- e. An annuity due is a finite stream of unequal payments which occur at the beginning of each time period.

Question 27: All else equal, if you are borrowing money, you should prefer an _____ and if you are investing money you should prefer an _____.

(1 Point)

- a. Annuity due; annuity due
- b. Annuity due; ordinary annuity
- c. Ordinary annuity; ordinary annuity
- d. Ordinary annuity; annuity due
- e. You should have no preference as it makes no difference.



- I. Adding the cash flows together and finding the future value of the sum.
- II. Finding the present value of the sum of the payments.
- III. Applying the proper future value factor to each cash flow, then adding up these future values.
- IV. Finding the present value of each cash flow, adding all of the present values together, then finding the future value at the end of year 10 of this lump sum.

- a. I only.
- b. II only.
- c. III only.
- d. II and IV only.
- e. III and IV only.

Question 29: Given a fixed stream of monthly income the:

(1 Point)

- a. Future value will decrease as the interest rate decreases.
- b. Future value will increase as the time period decreases.
- c. Future value will increase if payments are made at the end of the period rather than the beginning.
- d. Present value will increase as the interest rate increases.
- e. Present value will increase as the time period decreases.

Question 30: When you were born, your dear old Aunt Minnie promised to deposit \$1,000 into a savings account bearing a 5% compounded annual rate on each birthday, beginning with your first. You have just turned 21 and want the dough. How much is in the account right now? Round to the nearest dollar.

(1 Point)

- a. \$22,000
- b. \$31,976
- c. \$33,066
- d. \$35,719
- e. \$38,505

Question 31: You just settled an insurance claim. The settlement calls for increasing payments over a 5-year period. The first payment will be paid one year from now in the amount of \$30,000. The following payments will increase by 6 percent annually. What is the value of this settlement to you today if you can earn 8.5 percent on your investments?

(1 Point)

- a. \$118,219.26
- b. \$129,417.11
- c. \$132,023.05
- d. \$141,414.14
- e. \$152,008.16

Question 32: What is the present value of the following cash flows if the interest rate is 8 percent? The cash flows occur at the end of each year. Year 1 equals \$9,820; year 2 equals \$0; and year 3 equals \$4,510.

(1 Point)

- a. \$12,672.78
- b. \$13,260.28
- c. \$13,400.18
- d. \$14,330.00
- e. None of the above is correct.

Question 33: You win the lottery and are given the option of receiving \$250,000 now or an annuity of \$25,000 at the end of each year for 30 years. Which of the following is correct? (Ignore taxes.)

(1 Point)

- a. You will always choose the lump regardless of interest rates.



- d. You cannot choose between the two without first calculating annuity due values.
- e. You will always choose the annuity.

Question 34: Your father won a lottery years ago. The value of his winnings at the time was \$421,053. He invested this money such that it will provide annual payments of \$12,000 a year to his heirs forever. What is the rate of return?

(1 Point)

- a. 1.20 percent
- b. 2.85 percent
- c. 5.33 percent
- d. 5.49 percent
- e. 18.75 percent

Question 35: What is the future value of \$2,400 a year for three years at an 8 percent rate of interest?

(1 Point)

- a. \$6,185.03
- b. \$6,847.26
- c. \$7,134.16
- d. \$7,200.00
- e. \$7,791.36

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