

**Choose the correct answer, and then shade the proper circle at your electronic answer sheet.**

Given the following income statement and balance sheet answer the following questions. [The statements 1 through 6 are interconnected]

Income Statement		
Net Sales	\$	18,000,000
(-) Cost of Goods Sold	\$	15,000,000
Gross Profit	\$	3,000,000
(-) Operating Expenses (G&A)	\$	1,800,000
Operating Profit (EBIT)	\$	1,200,000
Interest Expense	\$	300,000
Earnings Before Tax	\$	900,000
Tax Expense	\$	100,000
Net Profit	\$	800,000

Balance Sheet					
Cash	\$	1,000,000	Accounts Payable	\$	1,500,000
Accounts Receivable	\$	1,500,000	Notes Payable - Bank	\$	1,000,000
Inventory	\$	2,000,000	Current Portion LT Debt	\$	500,000
Current Assets	\$	4,500,000	Current Liabilities	\$	3,000,000
Fixed Assets	\$	6,000,000	Long Term Debt	\$	4,000,000
Other	\$	500,000	Total Liabilities	\$	7,000,000
			Net Worth	\$	4,000,000
Total Assets	\$	11,000,000	Total Liabilities & Net Worth	\$	11,000,000

- Gross Profit margin is \_\_\_\_\_.  
A) 4.4%. B) 16.7%. C) 6.7%. D) 5.6%. E) None of the above.
- Current ratio is \_\_\_\_\_.  
A) 3. B) 2.5. C) 1.5. D) 0.67. E) None of the above.
- Quick ratio is \_\_\_\_\_.  
A) 0.83. B) 1.5. C) 2.5. D) 0.67. E) None of the above.
- Average age of inventory is \_\_\_\_\_ days.  
A) 50.71. B) 80.93. C) 48.67. D) 36.79. E) None of the above.
- Average Collection period is \_\_\_\_\_ days.  
A) 30.42. B) 35.72. C) 100.6. D) 98.82. E) None of the above.
- Return on Asset is \_\_\_\_\_.  
A) 1.64. B) 0.27. C) 0.08. D) 0.07. E) None of the above.

Duchess Corporation, a hardware manufacturer, is contemplating selling \$10 million worth of 10-year, 9% coupon bonds with a par value of \$1,000. Because of current market interest rates of 12%, the firm must sell the bonds with a discount of \$40. Duchess Corporation is also looking at the issuance of a 10% preferred stock with a par value of \$100. Other data are shown below. [The statements 7 through 15 are interconnected]

<ul style="list-style-type: none"> <li>The corporate tax rate is 40%. personal tax rate is 25%. The average brokerage fees of 3%. The flotation cost for bonds is 4%. The flotation cost for preferred stock is also 4%.</li> <li>The <math>r_f</math> equals 7%; the firm's <math>\beta</math> equals 1.1; and the market <math>r_m</math> equals 14%.</li> <li>Duchess's stock sells for \$60; the expected dividend is \$3; the total underpricing and flotation costs are \$7.5 per share.</li> <li>Duchess's target capital structure of 40% debt, 10% preferred stock, and 50% common equity. New equity financing comes exclusively from the new common stock.</li> </ul>	Year	Dividend
	2020	3.2
	2021	3.6
	2022	3.9
	2023	4.2

- The after-tax cost of debt  $r_d$  is \_\_\_\_\_.  
A) 6.13%. B) 5.75%. C) 7.07%. D) 11.02%. E) None of the above.
- The before-tax cost of debt  $r_d$  is \_\_\_\_\_.  
A) 9.59%. B) 18.36%. C) 10.21%. D) 11.79%. E) None of the above.
- The cost of preferred stock  $r_p$  is \_\_\_\_\_.  
A) 12.17%. B) 9.05%. C) 10.41%. D) 11.26%. E) None of the above.
- The constant-growth rate (g) is \_\_\_\_\_.  
A) 16.03%. B) 7.69%. C) 18.22%. D) 9.51%. E) None of the above.



- 11- The cost of common stock equity  $r_s$  using Gordon model is \_\_\_\_\_.  
 A) 17.03%. B) 14.51%. C) 11.69%. D) 23.22%. E) None of the above.
- 12- The cost of common stock equity  $r_s$  using CAPM model is \_\_\_\_\_.  
 A) 13.08%. B) 17.31%. C) 12.78%. D) 14.70%. E) None of the above.
- 13- Technically, the cost of retained earnings  $r_r$  is \_\_\_\_\_. (Note: Using CAPM outcomes)  
 A) 10.69%. B) 9.30%. C) 12.59%. D) 9.52%. E) None of the above.
- 14- The cost of a new issues of common stock  $r_n$  is \_\_\_\_\_.  
 A) 5.71%. B) 15.22%. C) 11.89%. D) 13.95%. E) None of the above.
- 15- The weighted average cost of capital (WACC) is \_\_\_\_\_.  
 A) 10.75%. B) 10.84%. C) 12.74%. D) 11.10%. E) None of the above.
- 16- The science and art of managing money.  
 A) Economic. B) Accounting. C) Management. D) Finance. E) Art Science.
- 17- He holds the most power over the directors and provides leadership to the firm's officers and executives.  
 A) CFO. B) Treasurer. C) CEO. D) Controller. E) COB.
- 18- Benchmarking is a type of \_\_\_\_\_ analysis.  
 A) cross section. B) time series. C) event. D) both a & b. E) None of the above.
- 19- The decision rule for financial managers is only to take actions expected to increase the \_\_\_\_\_.  
 A) ROE. B) share price. C) ROA. D) net profit. E) EPS.
- 20- \_\_\_\_\_ are interested in ratio analysis.  
 A) Current shareholders. B) Prospective shareholders. C) Creditors. D) Management. E) All of the above.
- 21- Violations of the applicable standards of conduct in finance involve all of the following, EXCEPT:  
 A) Options backdating. B) Insider trading. C) Kickbacks. D) Earnings management. E) Disclose conflicts.
- 22- Which of the following ratios is not part of the DuPont analysis?  
 A) Profit margin. B) Total asset turnover. C) Cash balance ratio. D) Financial leverage. E) None of the above.
- 23- Performance plans tie management compensation to measures such as \_\_\_\_\_ or growth in \_\_\_\_\_.  
 A) ROA. B) FPCR. C) ROE. D) EPS. E) ROI.
- 24- DuPont system merges the income statement and balance sheet into two summary measures of \_\_\_\_\_.  
 A) liquidity. B) activity. C) debt. D) profitability. E) None of the above.
- 25- From a strictly theoretical point of view, the preferred weighting scheme is \_\_\_\_\_ value proportions  
 A) historical market. B) target book. C) current market. D) historical book. E) target market.
- 26- \_\_\_\_\_ investors are professionals, that are paid to manage large quantities of securities on behalf of others.  
 A) International. B) Individual. C) Active. D) Venture. E) Institutional.
- 27- \_\_\_\_\_ ratios measure the speed with which various accounts are converted into sales or cash—inflows or outflows.  
 A) Profitability. B) Activity. C) Liquidity. D) Coverage. E) Market.
- 28- Robert A. Cooke suggested \_\_\_\_\_ questions to be used to assess the ethical viability of a proposed action.  
 A) four. B) two. C) five. D) seven. E) three.
- 29- Although they are prepared quarterly, they are computed monthly by management and quarterly for tax purposes.  
 A) The income statement. B) The statement of cash flows. C) The balance sheet. D) The statement of retained earnings. E) All of the above.
- 30- The Sarbanes-Oxley Act of 2002 reformed \_\_\_\_\_ main areas in financial reporting.  
 A) seven. B) three. C) two. D) five. E) four.
- 31- The magnification of risk and return through the use of fixed-cost financing, such as debt and preferred stock.  
 A) Risk discount. B) Financial leverage. C) Fixed-cost analysis. D) Hybrid Financing. E) Real option.
- 32- This form has better access to financing, as well as in which ownership is readily transferable.  
 A) Sole Proprietorship. B) Limited Partnership. C) Corporation. D) Partnership. E) Global Association.
- 33- \_\_\_\_\_ ratios measure the firm's ability to satisfy its short-term obligations as they come due.  
 A) Coverage. B) Activity. C) Profitability. D) Market. E) Liquidity.
- 34- It defines the rights and responsibilities of the corporate participants as well as the rules for making corporate decisions.  
 A) Decision making process. B) SOX Act 2002. C) Corporate governance. D) Business ethics. E) Social responsibility.
- 35- Generally, this legal form of business is featured by secrecy, independence, and ease of dissolution.  
 A) Venture business. B) Corporations. C) Closed corporations. D) Sole proprietorships. E) Mutual funds.

*All our best wishes,*