WGU.Financial-Management.v2026-07-27.q38

Exam Code:	Financial-Management
Exam Name:	WGU Financial Management VBC1
Certification Provider:	WGU
Free Question Number:	38
Version:	v2026-07-27
# of views:	104
# of Questions views:	395
https://www.freecram.net/torrent/WGU.Financial-Management.v2026-07-27.q38.html	

NEW QUESTION: 1
In the statement of cash flows, what is the most commonly used method by financial analysts to calculate cash flows from operations (CFO)?
A. The direct method
B. The indirect method
C. The asset disposal method
D. The balance sheet method
Answer: (SHOW ANSWER)
The indirect method is the most commonly used approach to calculate cash flows from operations (CFO). Under this method, analysts begin with net income and adjust for non-cash expenses (such as depreciation and amortization) and changes in working capital accounts (current assets and current liabilities). This method highlights the reconciliation between accrual-based net income and actual cash generated by operations. Financial analysts favor the indirect method because it provides insight into how accounting profits translate into cash flows and helps identify earnings quality issues. Although the direct method shows actual cash inflows and outflows from operations, it is less commonly used due to higher data requirements. The indirect method is widely accepted under accounting standards and dominates published financial statements, making it the standard tool in financial statement analysis and valuation work.

NEW QUESTION: 2
What is a function of the Financial Industry Regulatory Authority (FINRA)?
A. Issuing currency
B. Insuring bank deposits
C. Managing federal monetary policy
D. Regulating brokerage firms
Answer: (SHOW ANSWER)

FINRA's core function is regulating brokerage firms and registered representatives to ensure fair and honest markets. It establishes and enforces rules governing trading practices, licensing, disclosure, and ethical conduct. FINRA also conducts examinations, investigates misconduct, and administers arbitration and mediation between investors and brokers. Unlike the Federal Reserve or FDIC, FINRA does not manage monetary policy or insure deposits. Financial management and regulatory texts consistently describe FINRA as a critical component of U.S. securities market oversight. Option D correctly identifies its primary role.

NEW QUESTION: 3
A company has a return on assets (ROA) of 10% and total assets of $500 million.
What is its net income?
A. $5 million
B. $10 million
C. $50 million
D. $100 million
Answer: (SHOW ANSWER)
Return on assets (ROA) measures how effectively a firm uses its assets to generate profits and is calculated as Net Income ÷ Total Assets. To find net income, the formula is rearranged:
Net Income = ROA × Total Assets.
With an ROA of 10% (0.10) and total assets of $500 million, net income equals $50 million. ROA is a critical profitability metric in financial statement analysis because it links income to the asset base, allowing comparisons across firms and industries regardless of size. A higher ROA indicates more efficient asset utilization. Option C correctly applies the ROA formula and reflects standard financial analysis practice.

NEW QUESTION: 4
Using the dividend discount valuation information provided, what is the intrinsic value of the stock ?
A. $52.40
B. $60.00
C. $66.55
D. $75.80
Answer: (SHOW ANSWER)
This question applies dividend-based stock valuation principles commonly covered under the Dividend Discount Model (DDM). The intrinsic value of a stock is determined by discounting expected future dividends at the investor's required rate of return. When dividends are expected to grow at a constant rate, financial management texts recommend using the Gordon Growth Model, which states that stock value equals the next expected dividend divided by the difference between the required return and the growth rate. The calculated value of $66.55 reflects the present value of expected future dividends based on the assumptions provided in the problem. This valuation technique is widely used for mature, dividend-paying firms with stable growth. The

result represents the theoretical fair value of the stock, which investors compare to the current market price to assess whether the stock is undervalued or overvalued.

NEW QUESTION: 5

How is the cash ratio calculated?

A. Cash and Cash Equivalents ÷ Current Liabilities

B. Cash and Cash Equivalents ÷ Total Liabilities

C. Current Assets ÷ Current Liabilities

D. Cash + Accounts Payable

Answer: (SHOW ANSWER)

The cash ratio is a strict liquidity ratio that measures a company's ability to pay its current liabilities using only its most liquid assets: cash and cash equivalents. The formula is Cash and Cash Equivalents divided by Current Liabilities. This makes answer A correct. Unlike the current ratio, which includes all current assets, or the quick ratio, which includes cash, marketable securities, and receivables, the cash ratio focuses only on immediately available funds. Because it excludes inventory and accounts receivable, it is the most conservative measure of short-term liquidity. Financial analysts use the cash ratio to evaluate whether a firm could meet near-term obligations even under stressful conditions where receivables are not collected quickly and inventory cannot be sold promptly. A very low cash ratio may indicate liquidity risk, while an extremely high cash ratio may suggest inefficient use of idle funds. Choice B is incorrect because total liabilities include long-term obligations. Choice C defines the current ratio, not the cash ratio. Choice D is not a meaningful ratio formula. Therefore, A correctly states the formula used to calculate the cash ratio in financial statement analysis and working capital management.

NEW QUESTION: 6

What does a beta of less than 1 signify in the capital asset pricing model (CAPM)?

A. The investment has higher risk than the market.

B. The investment has lower risk than the market.

C. The investment has a return that is independent of the market.

D. The investment is risk-free.

Answer: (SHOW ANSWER)

A beta less than 1 indicates that an investment has lower systematic risk than the overall market. Such securities tend to experience smaller fluctuations in response to market movements. Defensive stocks- such as utilities or consumer staples-often exhibit betas below one because their revenues are relatively stable across economic cycles. In CAPM, lower beta implies lower required return, reflecting reduced exposure to market-wide risk. Importantly, a beta below one does not mean the investment is risk-free; it still carries firm-specific (unsystematic) risk. Option B correctly describes the implication of a beta less than one within capital market theory.

NEW QUESTION: 7

Why might a firm use a combination of methods to calculate the cost of common equity?

A. To achieve a more accurate and comprehensive estimate
B. To focus exclusively on dividend policies
C. To comply with regulatory requirements
D. To account for one method being significantly more complex
Answer: (SHOW ANSWER)
No single model perfectly estimates the cost of common equity under all conditions. CAPM focuses on systematic risk, the Gordon growth model emphasizes dividends and growth, and other approaches may rely on market comparables. Each method has strengths and weaknesses depending on firm characteristics and market conditions. Financial management best practice therefore recommends using multiple approaches and comparing results to arrive at a more reliable estimate. This triangulation reduces model-specific bias and highlights potential inconsistencies in assumptions.
Managers then apply judgment to select a reasonable cost of equity that reflects risk, growth prospects, and investor expectations. Option A correctly reflects this practical, widely accepted approach.

NEW QUESTION: 8
What is a potential drawback of lowering the annual dividend payment?
A. It can lead to an immediate increase in the company's stock price.
B. It could possibly increase the company's net margin.
C. It might lead to higher sales growth for the company.
D. It may cause the company's stockholders to react negatively.
Answer: (SHOW ANSWER)
Dividend policy carries important signaling effects in financial markets. Investors often view dividends as a signal of management's confidence in the firm's future cash flows. When a company lowers its dividend, shareholders may interpret the action as a sign of financial distress, declining profitability, or uncertainty about future earnings. This negative perception can result in a decline in the firm's stock price and reduced investor confidence. While dividend reductions may free up cash for reinvestment and improve long-term financial flexibility, the short-term market reaction is often unfavorable.
Financial management literature stresses that dividend changes should be made cautiously and clearly communicated to avoid misinterpretation. Option D correctly identifies this key drawback.

NEW QUESTION: 9
How does a competitive sale of bonds work?
A. Underwriters negotiate directly with the issuing firm on price and interest rate.
B. Underwriters submit bids, and the firm selects one based on price and interest rate.
C. The underwriter is selected by the issuing firm based on a thorough interview process.
D. The underwriter purchases bonds at a fixed rate determined by the government.
Answer: (SHOW ANSWER)

In a competitive bond sale, the issuer invites multiple underwriters (often investment banks) to bid on underwriting the bond issue. Each underwriting group proposes terms-commonly including the interest cost to the issuer (true interest cost or net interest cost), pricing, and underwriting spread. The issuer then selects the bid that provides the most favorable overall financing terms, typically the lowest borrowing cost for the desired structure and risk profile. This process is designed to create market competition among underwriters, which can reduce underwriting costs and improve pricing efficiency-especially when the issuer is well-known and the bond issue is relatively standard. This differs from a negotiated sale (option A), where the issuer works directly with a chosen underwriter to set terms through discussion rather than competitive bidding. Option C describes how an issuer might choose firms to participate, but it is not the defining mechanism of a competitive sale. Option D is incorrect because governments do not set fixed rates for corporate bond underwriting; pricing is determined by market conditions, issuer credit risk, investor demand, and the competitive bidding process itself.

NEW QUESTION: 10

Which practice can help an analyst identify the most relevant financial data and ratios when assessing the financial health of a firm?

A. Focusing only on the most recent fiscal year's data

B. Assuming financial statements from different firms are directly comparable without adjustments

C. Ignoring all ratios except liquidity ratios

D. Identifying why differences exist in comparisons between firms and analyzing macroeconomic conditions

Answer: (SHOW ANSWER)

Effective financial analysis requires context. Analysts must understand not only numerical differences but also the underlying reasons for those differences. Variations in firm size, accounting policies, capital structure, industry positioning, and macroeconomic conditions can significantly affect ratios. By identifying why firms differ and adjusting for external influences such as interest rates, inflation, or economic cycles, analysts gain more meaningful insights into performance and risk. This comparative, contextual approach aligns with best practices in financial statement analysis and avoids misleading conclusions drawn from raw numbers alone. Option D reflects this disciplined analytical process, while the other options oversimplify analysis or ignore critical dimensions of comparability.

NEW QUESTION: 11

Which type of security has voting rights associated with it?

A. Preferred stock

B. Secured bond

C. Convertible note

D. Common stock

Answer: (SHOW ANSWER)

Voting rights are a defining characteristic of common stock and represent ownership and control in a corporation. Holders of common stock typically have the right to vote on key corporate matters such as electing the board of directors, approving major mergers or acquisitions, and authorizing significant changes to corporate governance. These rights align with the role of shareholders as residual claimants, meaning they receive what is left after all other obligations-such as debt and preferred dividends-are met. Preferred stockholders usually do not have voting rights under normal conditions, as preferred stock is structured to resemble a hybrid between debt and equity, emphasizing fixed dividend payments rather than control. Bondholders and holders of convertible notes are creditors, not owners, and therefore have no voting power in corporate decisions. From a financial management perspective, voting rights are a key factor in ownership structure, agency relationships, and corporate governance.
Option D correctly identifies common stock as the security that carries voting rights.

NEW QUESTION: 12
Why should a firm not carry too much cash?
A. To guard against the higher interest payments associated with large cash balances
B. To prevent the need to pay higher taxes on cash holdings
C. To avoid incurring large opportunity costs
D. To keep the cash ratio at a low level for financial reporting purposes
Answer: C (LEAVE A REPLY)
A firm should avoid holding too much cash because excess cash creates opportunity costs. Cash is highly liquid and useful for transactions, precautionary needs, and flexibility, but it normally earns a lower return than productive investments such as equipment, expansion projects, debt reduction, or marketable securities with higher yields. When a company keeps more cash than needed for operations and risk management, it sacrifices the potential return that those funds could have earned elsewhere. Financial management emphasizes balancing liquidity against profitability. Too little cash can create distress and limit the ability to pay obligations on time, while too much cash can weaken overall performance by leaving resources idle.
Choice C is correct because opportunity cost is the most direct financial drawback of excessive cash balances.
Choice A is incorrect because firms do not pay interest simply for holding cash. Choice B is also incorrect because cash itself does not automatically create higher taxes in the way described. Choice D is not a valid financial objective. Therefore, C is the correct answer because unused cash can reduce shareholder value when it is not deployed in higher-return uses.
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NEW QUESTION: 13
What distinguishes a subordinated debenture from a senior debenture?
A. A subordinated debenture has a higher claim on assets in the event of liquidation.
B. A subordinated debenture has a lower claim on assets in the event of liquidation.
C. A subordinated debenture is secured with collateral.

D. A subordinated debenture is issued in a foreign currency.

Answer: (SHOW ANSWER)

A subordinated debenture differs from a senior debenture primarily in the priority of claims. Both are typically unsecured debt instruments, but subordinated debentures rank below senior debentures in the event of liquidation or bankruptcy. This means holders of senior debt are paid before holders of subordinated debt if the firm's assets are distributed. Because subordinated debenture holders face greater default risk, they usually require a higher yield as compensation. This ranking feature is a key concept in capital market theory because the risk level of a security affects investor required return and the issuer's cost of capital. Choice A is the opposite of the correct answer. Choice C is incorrect because a debenture is generally unsecured, and subordination does not mean collateral is provided. Choice D is unrelated to the distinction between the two instruments. Financial managers must understand debt priority because it influences financing choices, covenant design, investor demand, and interest cost. Therefore, B is correct because subordination means a lower claim on assets and cash flows relative to senior debtholders.

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NEW QUESTION: 14

What is the significance of Section 302 of the Sarbanes-Oxley Act (SOX)?

A. It requires management to certify the accuracy of financial reports.

B. It requires the external auditor to take responsibility for financial accuracy.

C. It relaxes the requirements for internal control.

D. It allows companies to opt out of internal control reporting.

Answer: (SHOW ANSWER)

Section 302 of the Sarbanes-Oxley Act requires a company's chief executive officer (CEO) and chief financial officer (CFO) to personally certify the accuracy and completeness of financial statements and disclosures. This certification affirms that management is responsible for establishing and maintaining effective internal controls and has evaluated their effectiveness. The provision was introduced to enhance accountability and restore investor confidence following major accounting scandals. By placing legal responsibility directly on senior executives, Section 302 strengthens corporate governance and reduces the likelihood of fraudulent reporting. Financial management and governance literature consistently highlight this section as a cornerstone of SOX compliance. Option A accurately reflects its purpose.

NEW QUESTION: 15

How does the global bond market impact the strategies of multinational corporations?

A. By enhancing incentives to raise capital domestically

B. By reducing the need for currency risk management

C. By offering diverse financing options beyond domestic markets

D. By ensuring fixed interest rates on all international loans

Answer: (SHOW ANSWER)

Multinational corporations (MNCs) often seek the lowest-cost and most flexible sources of long-term financing. The global bond market expands their choices beyond domestic lenders and investors, enabling firms to issue debt in multiple countries, currencies, and structures (fixed vs. floating rates, maturities, secured vs. unsecured, and different covenant packages). This broad access can reduce the weighted average cost of capital (WACC) if foreign markets provide lower yields, deeper investor demand, or better terms for the issuer's credit profile. Global issuance can also support operational needs: an MNC earning revenues in euros or yen may issue bonds in those currencies to create a natural hedge, matching debt service with foreign-currency cash inflows and reducing exchange-rate exposure. However, the global bond market does not remove currency risk automatically (so B is incorrect), nor does it guarantee fixed interest rates (D is incorrect). While domestic issuance remains important, global markets increase strategic flexibility, allowing firms to optimize capital structure, diversify funding sources, manage refinancing risk, and tailor financing to geographic cash flows-core themes in international financial management.

NEW QUESTION: 16
What is the main responsibility of the Financial Industry Regulatory Authority (FINRA)?
A. Regulating brokerage firms and exchange markets
B. Insuring investor deposits
C. Regulating the Federal Reserve
D. Overseeing the issuance of currency
Answer: (SHOW ANSWER)
The Financial Industry Regulatory Authority (FINRA) is a self-regulatory organization responsible for overseeing brokerage firms and registered securities representatives in the United States. Its primary mission is to protect investors and ensure market integrity by enforcing rules governing ethical conduct, disclosure, trading practices, and licensing. FINRA operates under the oversight of the Securities and Exchange Commission (SEC), creating a regulatory structure that combines federal authority with industry expertise. Unlike the FDIC, FINRA does not insure deposits, and unlike the Federal Reserve, it does not manage monetary policy or issue currency. Financial management texts emphasize FINRA's role in supervising broker-dealers, administering qualification exams, and resolving disputes through arbitration and mediation. Option A correctly identifies FINRA's core responsibility.

NEW QUESTION: 17

Why might a firm use a combination of methods to calculate the cost of common equity?

A. To account for one method being significantly more complex

B. To comply with regulatory requirements

C. To achieve a more accurate and comprehensive estimate

D. To focus exclusively on dividend policies

Answer: (SHOW ANSWER)

NEW QUESTION: 18

A building owner is undertaking a weatherization project. The owner will make a one-time investment of
$410,000 for caulking, sunshades, and smart thermostats. Annual utility savings are projected to be:

* Year 1: $125,000
* Year 2: $125,000
* Year 3: $140,000
* Year 4: $140,000
* Year 5: $160,000

What is the payback period , in years? (Round up)

A. 2

B. 3

C. 4

D. 5

Answer: (SHOW ANSWER)

The payback period measures how long it takes for a project's cumulative cash inflows to recover the initial investment. It is a simple capital budgeting technique commonly used as a preliminary screening tool.

Although it does not account for the time value of money or cash flows beyond the cutoff period, it is useful for assessing liquidity and risk exposure.

Cumulative cash flows are calculated as follows:

* End of Year 1: $125,000
* End of Year 2: $250,000
* End of Year 3: $390,000
* End of Year 4: $530,000

The initial investment of $410,000 is recovered sometime during Year 4. Because the question instructs to round up, the payback period is reported as 4 years. Financial management textbooks emphasize that while payback should not be used alone to accept or reject projects, it provides insight into how quickly invested capital is recovered, which is especially relevant for projects with uncertainty or liquidity constraints.

NEW QUESTION: 19

Which type of company would likely have a high credit rating for its bonds?

A. A company with a history of defaulting on its debt obligations

B. A company with high debt ratios and low liquidity ratios

C. A financially solid company with low debt and high earnings

D. A new company with unproven market penetration and high operational costs

Answer: (SHOW ANSWER)

Bond credit ratings assess the likelihood that a borrower will meet its interest and principal obligations.

Rating agencies evaluate factors such as earnings stability, cash flow coverage, leverage, liquidity, and overall business risk. Companies with strong, consistent earnings and low leverage are viewed as less risky because they have greater capacity to service debt even during economic downturns. High liquidity further reduces default risk by ensuring near-term obligations can be met. Option C best matches these criteria. Firms with a history of default, excessive leverage, weak liquidity, or uncertain business models face higher perceived risk and therefore receive lower credit ratings. High credit ratings allow firms to borrow at lower interest rates, reducing financing costs and improving financial flexibility-key goals in long-term financial management.

NEW QUESTION: 20

Which group does the Securities and Exchange Commission (SEC) work with closely to oversee broker - dealers?

A. The Federal Reserve

B. The Federal Deposit Insurance Corporation (FDIC)

C. The Financial Industry Regulatory Authority (FINRA)

D. The Commodity Futures Trading Commission (CFTC)

Answer: (SHOW ANSWER)

The Securities and Exchange Commission (SEC) is the primary federal regulator of U.S. securities markets, but it works closely with self-regulatory organizations to oversee market participants. The Financial Industry Regulatory Authority (FINRA) is the main self-regulatory organization responsible for supervising broker- dealers, enforcing rules, and protecting investors. FINRA operates under SEC oversight, creating a layered regulatory framework that combines government authority with industry-specific expertise. This collaboration enhances market integrity and investor protection. Option C correctly identifies FINRA as the SEC's primary partner in broker-dealer oversight.

NEW QUESTION: 21

What is the goal of just-in-time (JIT) inventory management?

A. To increase the quantity of on-hand inventory
B. To minimize holding costs by reducing inventory levels
C. To maximize the storage space utilized
D. To extend the cash conversion cycle
Answer: (SHOW ANSWER)
Just-in-time (JIT) inventory management aims to minimize inventory levels by synchronizing production and deliveries closely with demand. By receiving materials only when needed, firms reduce holding costs such as storage, insurance, spoilage, and obsolescence. JIT also improves cash flow by freeing capital previously tied up in inventory and shortening the cash conversion cycle. Financial management literature highlights JIT as a strategy that enhances efficiency but requires reliable suppliers and precise demand forecasting. Option B accurately captures the core objective of JIT systems.

NEW QUESTION: 22
What is the Securities and Exchange Commission's (SEC's) Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system used for?
A. Electronic trading of securities
B. Regulating the Federal Reserve
C. Online filing and retrieval of company filings
D. Insuring deposit accounts
Answer: (SHOW ANSWER)
The SEC's EDGAR system is used for the electronic filing, storage, and retrieval of company disclosures and reports. Public companies submit documents such as annual reports, quarterly reports, registration statements, proxy materials, and other required filings through this system. Investors, analysts, regulators, and the general public can then access these filings online to review financial statements, management discussion, risk disclosures, and other important corporate information. Choice C is correct because EDGAR's core function is to make company filings available in an organized electronic database. Choice A is incorrect because EDGAR is not a trading platform. Choice B is unrelated because the SEC does not regulate the Federal Reserve through EDGAR. Choice D is incorrect because deposit insurance is associated with the FDIC, not the SEC. From a financial management and corporate governance perspective, EDGAR promotes transparency, timely disclosure, and informed decision-making in capital markets. Easy access to reliable financial information helps reduce information asymmetry between firms and investors. Therefore, C is the correct answer because EDGAR is specifically designed for online filing and retrieval of public company disclosures.

NEW QUESTION: 23
Considering the fundamental relationships of the balance sheet, how can a company's assets increase without a corresponding rise in liabilities?
A. The company could increase the amount of cash it pays out as dividends.
B. The company could increase the amount of depreciation it recognizes.

C. The company could finance the assets by restructuring its long-term debt.
D. The company could finance the assets by increasing owners' equity.
Answer: (SHOW ANSWER)
The balance sheet follows the basic accounting equation: Assets = Liabilities + Owners' Equity. This means that if assets increase, the increase must be matched by either an increase in liabilities, an increase in owners' equity, or some combination of both. Therefore, assets can rise without liabilities rising if the increase is financed through owners' equity. This might occur if the company issues new stock, receives additional capital contributions from owners, or retains earnings instead of distributing them as dividends. Choice A is incorrect because paying dividends reduces cash, which lowers assets and retained earnings. Choice B is also incorrect because depreciation reduces the book value of assets over time rather than increasing them. Choice C is not the best answer because restructuring long-term debt generally changes the form or timing of liabilities but does not explain an increase in assets without liabilities increasing. From a financial statement analysis perspective, understanding this relationship is essential when evaluating how a firm finances growth and how changes in the balance sheet affect leverage and ownership claims. Therefore, D is the correct answer because equity financing allows assets to increase without a matching increase in liabilities.

NEW QUESTION: 24
Why is understanding exchange rate risk crucial for multinational corporations?
A. Because exchange rates are stable and enhance investment outcomes
B. Because fluctuations in exchange rates can impact firm value
C. Because it allows companies to avoid the complexities of international operations
D. Because multinational operations simplify the financial planning process
Answer: (SHOW ANSWER)
Understanding exchange rate risk is crucial because exchange-rate movements can change the value of a multinational corporation's future cash flows, assets, liabilities, and reported earnings. A firm may sell products abroad, import raw materials, repay foreign-currency loans, or own subsidiaries in other countries. If exchange rates move unfavorably, the domestic-currency value of those transactions can decline, reducing profitability and potentially lowering the overall value of the firm. Exchange rate risk affects both operating decisions and financing decisions. For example, it can influence where a firm produces goods, which currency it borrows in, how it prices exports, and whether it should hedge future receipts or payments. This makes exchange-rate analysis a central part of international financial management, not a side issue. Choice A is incorrect because exchange rates are not stable. Choice C is incorrect because understanding the risk does not eliminate the complexity of international operations. Choice D is also incorrect because multinational business generally makes financial planning more difficult, not simpler. Therefore, B is correct because exchange-rate fluctuations can materially affect shareholder value and the financial performance of multinational corporations.
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NEW QUESTION: 25

Ratios for Freedom Rock Bicycles are shown below, along with industry average ratios.

	Freedom Rock Bicycles			Industry		
	20X3	20X2	20X1	20X3	20X2	20X1
Gross Margin	46%	47%	47%	43%	44%	44%
Operating Margin	7%	7%	8%	15%	16%	15%
Total Asset Turnover	2.5x	2.3x	2.5x	2.4x	2.4x	2.5x

What are appropriate recommendations for Freedom Rock Bicycles based on this analysis?

A. To increase production expenses and invest in more assets

B. To maintain current operating expenses and reduce asset levels to be in line with the industry

C. To reduce non-production expenses and evaluate the company's fixed costs

D. To focus solely on increasing gross margins to match industry levels

Answer: (SHOW ANSWER)

The data show that Freedom Rock Bicycles has gross margins comparable to or slightly above the industry but significantly lower operating margins. This indicates that the problem is not production efficiency or cost of goods sold, but rather operating expenses such as selling, general, and administrative costs or fixed overhead. Additionally, asset turnover is roughly in line with industry averages, suggesting that asset utilization is not the primary issue. From a financial management perspective, when gross margin is healthy but operating margin lags, the logical focus is on controlling non-production costs and evaluating fixed cost structures. Reducing unnecessary overhead, improving operating efficiency, or restructuring fixed expenses can directly improve operating margin and overall profitability. Option C best reflects this targeted, ratio-driven recommendation. The other options either misdiagnose the problem or focus on areas already performing adequately relative to peers.

NEW QUESTION: 26

What is a consequence of a firm having a longer cash cycle?

A. Instantaneous improvement in liquidity

B. Immediate increase in net income

C. Increased need to hold cash for operations

D. Decreased need to hold cash

Answer: (SHOW ANSWER)

A longer cash cycle means that more time passes between when a firm pays cash for inventory or production inputs and when it receives cash from customers. As this cycle lengthens, more funds are tied up in operations for a longer period. This increases the firm's need to hold cash or obtain short-term financing to support day- to-day activities. For example, if inventory sits longer before being sold or if customers take longer to pay, the firm must continue covering payroll, suppliers, and other operating expenses while waiting to recover cash.

Financial management views the cash conversion cycle as a critical working capital measure because it directly affects liquidity needs, financing cost, and operational risk. Choice C is correct because a longer cycle usually requires greater operating cash support. Choice A is incorrect because longer cycles typically reduce liquidity pressure only if financing is abundant, which is not the normal interpretation. Choice B is incorrect because a longer cash cycle does not automatically raise profits. Choice D is the opposite of the correct relationship. Therefore, C is the best answer because longer operating cycles increase the amount of cash a firm must keep available for operations.

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NEW QUESTION: 27

How does the use of historical returns to estimate the cost of common equity differ from the Gordon growth model?

A. It uses market risk as the primary factor.

B. It considers the future growth rate of dividends.

C. It focuses on the company's dividend policy.

D. It is based on past stock performance.

Answer: (SHOW ANSWER)

The historical-return approach differs from the Gordon growth model because it is based primarily on past stock performance rather than on expected future dividends and growth. Under the historical-return method, analysts estimate the cost of common equity by examining the returns investors earned on the firm's stock over prior periods. The Gordon growth model, by contrast, is a forward-looking dividend-based approach that estimates the cost of equity as the expected dividend yield plus the constant growth rate of dividends. Choice D is correct because it captures the defining feature of the historical-return method. Choice B and choice C describe the Gordon growth model rather than the historical-return approach. Choice A is more closely associated with CAPM, which uses market risk and beta. Financial management often uses multiple methods to estimate the cost of equity because each approach has limitations. Historical returns can be useful as a reference point, but they may not reflect current risk or investor expectations. The Gordon growth model can be useful for stable dividend-paying firms, but it is less suitable for firms without predictable dividends.

Therefore, D correctly explains the main difference between these two valuation methods.

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NEW QUESTION: 28

Alliah Company produces vaccines at its pharmaceutical facility near a river. It is considering expanding its operations by building a second facility next to the first. The company holds a public hearing to discuss an extra investment it will make to minimize pollution and keep the river clean and thriving for the native wildlife.

How does this effort support the overall goal of the firm?
A. Alliah Company is seeking to focus initially on maximizing value to the shareholders-or owners-of the firm, and the extra costs to prevent pollution will increase the immediate earnings available for owners.
B. Alliah Company is focusing on consumers first and foremost to create the greatest value for the company. Reducing this pollution will directly improve the quality of products the company creates.
C. Alliah Company is considering the long-term impact on shareholder value and the company's social responsibility to all stakeholders-including the environment and local community.
D. Alliah Company is ensuring this action will reduce immediate costs to maximize employee engagement and earnings-because the ultimate goal of a company is employee-oriented.
Answer: (SHOW ANSWER)
The firm's overarching financial objective is typically framed as maximizing long-term shareholder value, not just short-term profits. Actions that reduce environmental harm can support this objective by lowering the probability of costly future liabilities (fines, cleanup costs, lawsuits), reducing regulatory risk, and protecting the firm's "license to operate" granted by the community and government. In financial management terms, managers consider not only immediate cash outflows (the pollution-control investment) but also the present value of avoided future cash outflows and the stability of future cash inflows. A public hearing also reflects stakeholder orientation: communities, regulators, customers, and employees affect the firm's risk profile and operating continuity. Protecting the river can strengthen corporate reputation, reduce political and legal pressure, and improve long- run competitive position-all of which can raise the expected future free cash flows or lower the firm's perceived risk (and therefore its required return). Option C best captures the standard finance view that ethical and socially responsible decisions can align with value maximization when they manage risk and support sustainable, long-term performance.

NEW QUESTION: 29
Use Whole Pine Inc.'s financial statements for 20X3 below to answer the following question.
What is Whole Pine Inc.'s total asset turnover for 20X3?

Whole Pine Inc. Income Statement—20X3	
Revenue	$10,000
– Cost of Goods Sold	(3,500)
– Expenses	(5,000)
Net Income	$ 1,500

Whole Pine Inc. Balance Sheet—20X3			
Assets		Liabilities and Stockholder Equity	
Cash	$2,000	Accounts Payable	$1,000
Accounts Receivable	500	Long-Term Debt	4,000

Assets		Liabilities and Stockholder Equity	
Cash	$2,000	Accounts Payable	$1,000
Accounts Receivable	500	Long-Term Debt	4,000
Inventory	1,500	Common Stock	2,000
Net Property, Plant, and Equipment	4,000	Retained Earnings	1,000
Total Assets	$8,000	Total Liabilities and Stockholder Equity	$8,000

A. 0.50
B. 1.25
C. 2.33
D. 2.50
Answer: B (LEAVE A REPLY)
Total asset turnover measures how efficiently a firm uses its assets to generate revenue. It is calculated as Sales ÷ Total Assets. For Whole Pine Inc., sales for 20X3 are $10,000 and total assets are $8,000.

Dividing $10,000 by $8,000 yields a total asset turnover of 1.25. This means the company generates
$1.25 in sales for every $1.00 invested in assets. From a financial management perspective, this ratio is a key indicator of operating efficiency and is commonly compared across firms within the same industry or across time. A higher turnover suggests more efficient use of assets, while a lower turnover may indicate underutilized capacity or inefficient asset deployment. Asset turnover is also a component of the DuPont analysis, linking operational efficiency to return on equity. Option B correctly reflects both the calculation and interpretation consistent with standard financial analysis practice.

NEW QUESTION: 30

What is the effect of exchange rate fluctuations on multinational corporations' financial management?

A. They make currency risk less important because financial planning is done in dollars.

B. They necessitate the use of hedging strategies to mitigate the impact of currency fluctuations.

C. They decrease the complexity of financial reporting and analysis.

D. They stabilize international investment returns across countries.

Answer: (SHOW ANSWER)

Exchange rate fluctuations are a major concern for multinational corporations because these firms earn revenues, incur costs, borrow funds, and hold assets in more than one currency. When exchange rates move, the home-currency value of foreign cash inflows and outflows changes, which can directly affect reported earnings, cash flow, and firm value. A company that ignores currency risk may find that a profitable overseas operation becomes less valuable once foreign earnings are translated back into the parent company's reporting currency. For this reason, financial managers often use hedging techniques such as forward contracts, options, currency swaps, and natural hedges created by matching foreign-currency revenues with foreign-currency expenses or debt. These strategies do not eliminate all risk, but they help reduce unwanted volatility and improve planning accuracy. The other choices are incorrect because exchange rate movements do not make risk less important, do not simplify financial analysis, and do not stabilize returns. In fact, they usually increase uncertainty. Therefore, the best answer is B, because multinational financial management must actively address currency exposure through risk-mitigation strategies.

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NEW QUESTION: 31

To answer this question, refer to the cash flow worksheet and the internal rate of return (IRR) calculations.

The hospital is only interested in accepting projects with an IRR that exceeds 11%. Assuming the hospital has sufficient capital for both projects and is willing to invest for up to 10 years, which project(s) would the hospital accept?

A. Project A

B. Both Project A and Project B

C. Neither Project A nor Project B
D. Project B
Answer: (SHOW ANSWER)
The internal rate of return (IRR) represents the discount rate at which a project's net present value (NPV) equals zero. Financial management theory states that a project should be accepted if its IRR exceeds the firm' s required rate of return (or hurdle rate), assuming conventional cash flows and no capital rationing.
In this scenario, the hospital has a minimum required return of 11% and sufficient capital to undertake all acceptable projects. Based on the provided IRR calculations, both Project A and Project B have IRRs exceeding 11%, making them financially acceptable under the IRR decision rule. Because there is no capital constraint and the investment horizon is sufficient, the hospital should accept both projects.
Financial management texts caution that IRR can sometimes produce misleading rankings when projects differ significantly in scale or timing. However, when evaluating independent projects with acceptable IRRs, the correct decision is to accept all projects that meet or exceed the required return. Option B correctly reflects this principle.

NEW QUESTION: 32
What is the usual impact of high asset tangibility on capital structure?
A. Increased debt capacity due to assets serving as collateral
B. Higher cost of debt due to increased risk of asset value fluctuation
C. Preference for hybrid securities to leverage tangible assets
D. Easier access to equity markets due to tangible collateral
Answer: (SHOW ANSWER)
Asset tangibility refers to the proportion of a firm's assets that are physical and can be used as collateral, such as property, plant, and equipment. Firms with high asset tangibility typically have greater borrowing capacity because tangible assets reduce lender risk by providing collateral in case of default. This allows firms to secure debt financing at lower interest rates and with more favorable terms. Capital structure theory recognizes asset tangibility as a key determinant of leverage, particularly under the trade-off theory of capital structure. Option A accurately reflects the standard financial management view.

NEW QUESTION: 33

What is a drawback of using the Gordon growth model for estimating the cost of common equity?

A. It emphasizes short-term financial performance.

B. It requires extensive market data analysis.

C. It is too complex for general use.

D. It applies only to companies with stable dividend policies.

Answer: (SHOW ANSWER)

The Gordon growth model estimates the cost of common equity based on dividends, assuming dividends grow at a constant rate indefinitely. While the model is simple and intuitive, its main drawback is that it can only be applied to firms that pay dividends and have stable, predictable growth rates. Many firms-especially young, high-growth, or technology companies-either do not pay dividends or experience volatile growth, making the model inappropriate for them. Additionally, small changes in the growth rate assumption can lead to large changes in estimated equity cost, increasing sensitivity and potential estimation error. Financial management texts emphasize that while the Gordon growth model is useful for mature, dividend-paying firms, it lacks flexibility across industries and life-cycle stages. Option D correctly identifies this key limitation.

NEW QUESTION: 34

What is a benefit of a firm extending credit to customers in a competitive market?

A. Immediate cash inflows from sales

B. Decreased sales due to increased prices

C. Increased sales to non-cash buyers

D. Reduced customer base due to credit terms

Answer: (SHOW ANSWER)

Extending credit allows firms to attract customers who are unable or unwilling to pay cash at the time of purchase. In competitive markets, offering favorable credit terms can increase sales volume, improve customer relationships, and enhance market share. While credit sales delay cash inflows and introduce default risk, they can generate higher revenues and profits if managed properly. Financial management texts stress the importance of balancing increased sales against the costs of credit, including collection expenses and bad debt losses. Option C correctly identifies the primary strategic benefit of extending credit in competitive environments.

NEW QUESTION: 35

What are opportunity costs in the context of inventory management?

A. Costs for the labor involved in managing inventory levels

B. Costs of not investing capital tied up in inventory elsewhere

C. Costs related to the insurance of inventory against loss or damage

D. Costs incurred from the physical space used to store inventory

Answer: (SHOW ANSWER)

Opportunity cost represents the return a firm forgoes by investing resources in one use instead of the next best alternative. In inventory management, capital tied up in inventory cannot be used for other value-generating activities such as investing in new projects, paying down debt, or returning cash to shareholders. Financial management emphasizes opportunity cost as a key component of inventory carrying costs, along with storage, insurance, and obsolescence. Ignoring opportunity costs can lead to excessive inventory levels and reduced firm value. Option B correctly identifies this fundamental concept.

NEW QUESTION: 36

In the statement of cash flows, how should an increase in accounts receivable be treated when calculating cash collected from customers?

A. It should be subtracted from revenue.

B. It should be subtracted from cost of goods sold.

C. It should be added to revenue.

D. It should be added to the cost of goods sold.

Answer: (SHOW ANSWER)

When calculating cash collected from customers, an increase in accounts receivable must be subtracted from revenue. This is because revenue includes both cash sales and credit sales, but cash collected reflects only the amount actually received during the period. If accounts receivable increased, it means some portion of reported sales has not yet been collected in cash. Therefore, that increase must be deducted to convert accrual- based revenue into a cash basis amount. The general relationship is: Cash Collected from Customers = Sales Revenue # Increase in Accounts Receivable, assuming no other unusual adjustments. This treatment is important in preparing or interpreting the operating section of the statement of cash flows, especially under the direct method. Financial management relies on this distinction because firms may appear profitable on the income statement while still facing liquidity pressure if collections are slow. The other answer choices are incorrect because accounts receivable relates to sales revenue, not cost of goods sold. Therefore, A is the correct answer because subtracting the increase in receivables properly adjusts reported revenue to the actual cash collected from customers during the accounting period.

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NEW QUESTION: 37

How does country risk affect global financial management decisions?

A. It necessitates strategies to mitigate potential losses from instability or unfavorable policies.

B. It only affects firms with domestic operations facing international competition.

C. It reduces the complexity of international investments.

D. It is typically considered irrelevant in financial planning since it is unpredictable.

Answer: (SHOW ANSWER)

Country risk refers to the possibility that political, economic, legal, or social conditions in a foreign country will negatively affect a firm's operations and cash flows. In global financial management, this risk directly influences investment appraisal, financing choices, and risk management policies. For capital budgeting, higher country risk can lower expected cash flows (e.g., through capital controls, expropriation risk, supply disruptions, or taxation changes) and/or increase the discount rate applied to foreign projects. For financing, lenders and investors demand higher returns in riskier jurisdictions, affecting borrowing costs and feasible capital structures. Firms respond by using mitigation strategies such as diversification across countries, contractual protections, political risk insurance, careful partner selection, staging investments, and hedging currency exposures when relevant. Country risk also drives decisions about where to locate production, how to structure subsidiaries, and whether to denominate contracts and debt in local or hard currencies. Because country conditions can materially change expected outcomes, it is a core planning input rather than irrelevant or simplifying, making option A the correct statement.

NEW QUESTION: 38

Rusty RoboTech, a robotics technology company, has provided the following financial information for the year 20X3:

* Sales Revenue: $500,000
* Net Income: $50,000
* Dividend Payout: 40% of Net Income
* Total Assets at the beginning of 20X3: $300,000
* Total Liabilities at the beginning of 20X3: $150,000
* Equity at the beginning of 20X3: $150,000
* Historical Cash-to-Sales Ratio: 5%
* Accounts Receivable-to-Sales Ratio: 15%
* Inventory-to-Sales Ratio: 25%
* Cost of Goods Sold-to-Sales Ratio: 43%

For the year 20X4, Rusty RoboTech projects a 20% increase in sales revenue. Other ratios and the dividend policy are expected to remain the same.

What is the projected inventory value for Rusty RoboTech at the beginning of 20X4?

A. $120,000

B. $130,000

C. $140,000

D. $150,000

Answer: (SHOW ANSWER)

Projected sales for 20X4 equal $500,000 × 1.20 = $600,000. With the inventory-to-sales ratio expected to remain constant at 25%, projected inventory equals 25% of projected sales. Thus, inventory = 0.25 ×

$600,000 = $150,000. This approach reflects common financial planning techniques where balance sheet items are forecast using stable ratios tied to sales growth. Such pro forma analysis helps managers anticipate future asset needs and financing requirements. Option D correctly applies the inventory-to- sales ratio to projected sales.