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WGU Financial Management VBC1 Sample Questions (Q49-Q54):

NEW QUESTION # 49

What is a primary goal of managing accounts receivable through credit policies?

- A. To maximize sales regardless of cash flow impact
- B. To balance customer convenience with the firm's cash flow needs
- C. To transition all sales to cash-only transactions
- D. To eliminate accounts receivable entirely

Answer: B

Explanation:

The primary objective of accounts receivable management is to strike an optimal balance between increasing sales and maintaining healthy cash flows. Extending credit can stimulate demand and improve competitiveness, but excessive or poorly managed credit policies can lead to delayed cash inflows, higher bad debt losses, and increased financing costs. Financial management theory emphasizes evaluating credit standards, credit terms, and collection policies to ensure that the marginal benefit from additional sales exceeds the marginal cost of carrying receivables. These costs include opportunity costs of tied-up capital, administrative expenses,

and default risk. Effective receivables management supports liquidity while preserving customer relationships. Option D accurately reflects this balanced objective, whereas the other options ignore either revenue growth or cash flow discipline.

NEW QUESTION # 50

A company has just increased its dividend payout ratio.

What effect will this have on the company's sustainable growth rate?

- A. The sustainable growth rate will remain the same because the increase in the dividend payout ratio will be offset by a decrease in return on equity.
- B. The sustainable growth rate will either increase or decrease depending on the result of the change in dividend payouts on the plowback ratio.
- C. The sustainable growth rate will decrease.
- D. The sustainable growth rate will increase.

Answer: C

Explanation:

The sustainable growth rate (SGR) represents the maximum rate at which a firm can grow its sales, assets, and earnings without raising new external equity. It is calculated as $ROE \times \text{retention ratio}$, where the retention ratio equals one minus the dividend payout ratio. When a firm increases its dividend payout ratio, it retains less earnings for reinvestment, thereby reducing internally generated equity growth. Unless return on equity increases enough to offset this reduction—which is not assumed here—the sustainable growth rate will decline. Financial management theory emphasizes the trade-off between paying dividends and reinvesting earnings to support future growth. Option C correctly reflects this fundamental relationship between dividend policy and sustainable growth.

NEW QUESTION # 51

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 account for one method being significantly more complex
- C. To comply with regulatory requirements
- D. To focus exclusively on dividend policies

Answer: A

Explanation:

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 # 52

What is the usual impact of high asset tangibility on capital structure?

- A. Increased debt capacity due to assets serving as collateral
- B. Easier access to equity markets due to tangible collateral
- C. Preference for hybrid securities to leverage tangible assets
- D. Higher cost of debt due to increased risk of asset value fluctuation

Answer: A

Explanation:

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 # 53

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

- A. The investment has lower risk than the market.
- B. The investment is risk-free.
- C. The investment has higher risk than the market.
- D. The investment has a return that is independent of the market.

Answer: A

Explanation:

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 # 54

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