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WGU Financial Management VBC1 Sample Questions (Q36-Q41):

NEW QUESTION # 36

What is a function of the Financial Industry Regulatory Authority (FINRA)?

- **A. Regulating brokerage firms**
- B. Managing federal monetary policy
- C. Issuing currency
- D. Insuring bank deposits

Answer: A

Explanation:

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 # 37

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

- A. It relaxes the requirements for internal control.
- B. It allows companies to opt out of internal control reporting.
- C. It requires management to certify the accuracy of financial reports.
- D. It requires the external auditor to take responsibility for financial accuracy.

Answer: C

Explanation:

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 # 38

A company has a return on assets (ROA) of 10% and total assets of \$500 million.

What is its net income?

- A. \$50 million
- B. \$100 million
- C. \$10 million
- D. \$5 million

Answer: A

Explanation:

Return on assets (ROA) measures how effectively a firm uses its assets to generate profits and is calculated as $\text{Net Income} \div \text{Total Assets}$. To find net income, the formula is rearranged:

$\text{Net Income} = \text{ROA} \times \text{Total Assets}$.

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 # 39

Why would a company choose to maintain a certain level of cash as a reserve balance?

- A. To cover the cost of repurchasing shares from the stock market
- B. To safeguard against unforeseen expenses and maintain liquidity
- C. To pay for major capital expenditures without external financing
- D. To distribute as dividends at the end of the fiscal year

Answer: B

Explanation:

Maintaining a cash reserve is a core element of prudent working capital management. Firms hold cash to meet transaction needs, precautionary needs, and sometimes speculative opportunities. The precautionary motive is particularly important, as it allows firms

to handle unexpected expenses, revenue shortfalls, or economic disruptions without relying on costly external financing. Adequate liquidity reduces the risk of financial distress and enhances operational flexibility. Financial management theory emphasizes balancing the opportunity cost of holding cash against the benefits of liquidity. Option C accurately reflects this precautionary and liquidity-focused rationale.

NEW QUESTION # 40

What is a limitation of using the capital asset pricing model (CAPM) to estimate the cost of common equity?

- A. It is overly simplistic in its assumptions.
- B. It applies only to technology companies.
- C. It does not consider the market return.
- D. It requires historical financial data.

Answer: A

Explanation:

The Capital Asset Pricing Model (CAPM) is widely used to estimate the cost of common equity because of its clear risk-return framework. However, a major limitation is that it relies on several simplifying assumptions that may not hold in real-world markets. CAPM assumes investors are rational, markets are frictionless, all investors have the same expectations, and that a single factor-systematic risk measured by beta-fully explains expected returns. In reality, markets are affected by taxes, transaction costs, information asymmetry, and multiple sources of risk. Empirical evidence also suggests that factors such as firm size, value characteristics, and momentum can influence returns beyond beta alone. Because of these limitations, CAPM may underestimate or overestimate the true cost of equity for certain firms. Financial managers therefore often supplement CAPM with other models or judgment when estimating required returns. Option C correctly captures this fundamental limitation recognized in financial management theory.

NEW QUESTION # 41

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