

# Financial-Management Latest Exam Tips, Relevant Financial-Management Answers

## Financial Management Final Exam

Which of the following would represent a use of funds and, indirectly, a reduction in cash balances?

- A. An increase in inventories
- B. A decrease in marketable securities
- C. An increase in accounts payable
- D. The sale of new bonds by the firm

In the percent-of-sales method

- A. as the dividend payout ratio rises, the required new funds declines.
- B. the dividend payout ratio does not affect new funds.
- C. as the dividend payout ratio goes up, the required new funds also rises.
- D. None of the options.

The increasing percentage ownership of public corporations by institutional investors has

- A. had no effect on corporate management.
- B. created higher returns for the stock market in general.
- C. created more pressure on public companies to manage their firms more efficiently.
- D. taken away the voice of the individual investor.

The difference between total receipts and total payments is referred to as

- A. cumulative cash flow.
- B. beginning cash flow.
- C. net cash flow.
- D. cash balance.

Maximization of shareholder wealth is a concept in which

- A. increased earnings is of primary importance.
- B. profits are maximized on a quarterly basis.
- C. virtually all earnings are paid as dividends to common stockholders.
- D. optimally increasing the long-term value of the firm is emphasized.

In the percent-of-sales method, an increase in dividends

- A. will increase required new funds.
- B. will decrease required new funds.
- C. has no effect on required new funds.
- D. More information is needed.

As mergers, acquisitions, and restructuring have increased in importance, agency theory has become more important in assessing whether

- A. a stock repurchase should be undertaken.
- B. shareholder goals are truly being achieved by managers in the long run.

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## WGU Financial Management VBC1 Sample Questions (Q38-Q43):

### NEW QUESTION # 38

What does a beta higher than 1.0 for a stock indicate about its systematic risk?

- A. The stock is more predictable than the market.
- B. The stock is more volatile than the market.
- C. The stock is less risky than the market.
- D. The stock is less volatile than the market.

**Answer: B**

Explanation:

Beta measures a stock's sensitivity to movements in the overall market and represents its level of systematic (non-diversifiable) risk. A beta greater than 1.0 indicates that the stock tends to move more than the market in response to market-wide changes. For example, if the market increases by 1%, a stock with a beta of 1.2 is expected, on average, to increase by approximately 1.2%. Conversely, it would also decline more sharply during market downturns. From a capital market theory perspective, higher beta implies higher risk and therefore a higher required rate of return to compensate investors.

Financial managers use beta in the Capital Asset Pricing Model (CAPM) to estimate the cost of equity.

Option B correctly describes the implication of a beta greater than one.

### NEW QUESTION # 39

Which characteristic is unique to preferred stock?

- A. Voting rights in company decisions
- B. Potential for capital appreciation
- C. Fixed dividend payments for stockholders
- D. Ownership equity in the company

**Answer: C**

Explanation:

Preferred stock is distinguished by its fixed or stated dividend, which is typically paid before any dividends are distributed to common shareholders. This feature makes preferred stock resemble debt in terms of predictable income, while still being classified as equity on the balance sheet. Unlike common stockholders, preferred shareholders generally do not have voting rights and have limited potential for capital appreciation. However, they enjoy priority over common stockholders in dividend payments and, in liquidation, over residual equity claims. From a financial management standpoint, preferred stock provides firms with a flexible financing option that does not increase leverage in the same way as debt while offering investors relatively stable income. Option C correctly identifies the defining characteristic of preferred stock.

### NEW QUESTION # 40

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

**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 # 41

Synesthor is a company developing artificial intelligence (AI) to improve the searchability of medical research and make it easier for physicians to access the best knowledge for healthcare. As the company is setting its key objectives for the next period, it recognizes there are many stakeholders it serves.

If Synesthor focuses on what has traditionally been the primary goal of most companies, where will Synesthor center its efforts?

- A. Maximizing shareholder value
- B. Increasing employee satisfaction
- C. Expanding the company globally
- D. Focusing solely on customer satisfaction

**Answer: A**

Explanation:

Traditional corporate finance defines the primary objective of most firms—especially publicly held corporations—as maximizing shareholder wealth (shareholder value). This goal is operationalized by making decisions that increase the present value of expected future cash flows available to owners, adjusted for risk. While stakeholders such as employees, customers, communities, and regulators matter, the "shareholder value" framework treats them as critical constraints and drivers of long-term cash flow rather than the ultimate objective itself. For example, investing in employee satisfaction can improve productivity and retention; investing in customer satisfaction can increase revenues and reduce churn; and expanding globally can open new markets. However, under the traditional view, these actions are chosen because they enhance long-run free cash flow or reduce risk—thereby raising firm value—rather than because they are the final goal. In practice, managers translate this objective into measurable targets: profitable growth, margin improvement, efficient capital allocation, and disciplined investment appraisal (positive NPV projects). Therefore, the most accurate answer is that Synesthor will center its efforts on maximizing shareholder value, while balancing stakeholder considerations as part of sustaining competitive advantage and protecting the firm's future cash flows.

#### **NEW QUESTION # 42**

In the capital asset pricing model (CAPM), what does a beta (#) greater than 1 signify for a portfolio?

- A. The portfolio will always outperform the market.
- B. The portfolio is expected to move in the opposite direction of the market.
- C. The portfolio has less risk than the market.
- D. The portfolio has more risk than the market.

**Answer: D**

Explanation:

Within the CAPM framework, beta quantifies the degree of systematic risk relative to the market portfolio, which by definition has a beta of 1. A portfolio with a beta greater than 1 carries more systematic risk than the market, meaning its returns are expected to be more sensitive to market movements. This higher sensitivity increases both upside potential and downside exposure. According to CAPM, investors require a higher expected return for bearing this additional risk. Importantly, a higher beta does not guarantee superior performance; it simply reflects greater volatility relative to the market. Option B accurately captures this risk-based interpretation.

#### **NEW QUESTION # 43**

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