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|---|---|
| Cash | $1,000 |
| Marketable securities | 900 |
| Accounts receivable | 770 |
| Inventory | 670 |
| Property, plant, and equipment | 550 |
| Total assets: | $3,890 |
| | |
| Accounts payable | $1,260 |
| Long-term notes payable | 1,040 |
| Common stock | 1,000 |
| Retained earnings | 590 |
| Total liabilities and shareholders' equity: | $3,890 |

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## WGU Financial Management VBC1 Sample Questions (Q39-Q44):

**NEW QUESTION # 39**
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 asset disposal method
- B. The balance sheet method
- C. The direct method
- D. The indirect method

**Answer: D**

Explanation:

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 # 40**
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 # 41**
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 less risky than the market.
- C. The stock is less volatile than the market.
- D. The stock is more volatile than the market.

**Answer: D**

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 # 42**
Why might investors choose to invest in junk bonds?

- A. They are backed by government guarantees.
- B. They offer guaranteed returns with minimal risk.
- C. They offer the potential for higher returns in exchange for higher risk.
- D. They always outperform the stock market in terms of returns.

**Answer: C**

Explanation:
Junk bonds, also known as high-yield bonds, are issued by firms with lower credit ratings and therefore higher default risk. To compensate investors for this additional risk, these bonds offer higher interest rates than investment-grade bonds. From a financial management and portfolio perspective, investors may include junk bonds to enhance portfolio returns, particularly when they believe default risk is overstated or when economic conditions are favorable. Junk bonds do not guarantee returns and are not backed by government guarantees, making options A and D incorrect. They also do not consistently outperform equities, especially during periods of financial stress. Option B accurately reflects the risk- return tradeoff that underpins investment decisions in capital market theory: higher expected returns are associated with higher risk.

**NEW QUESTION # 43**
A start-up company's lender is concerned that the company may not be able to meet its financial obligations.
It asks the company to provide it with information regarding its current assets and current liabilities.
Which information would the start-up company need to provide to the lender?

- A. Long-term debt obligations payable to the bank
- B. Investments that the firm plans to hold for more than one year
- C. Obligations that require cash within the next year
- D. Depreciation of equipment the firm uses for its daily operations

**Answer: C**

Explanation:
Current liabilities are obligations that a firm must settle within one operating cycle or one year, whichever is longer. When a lender evaluates a firm's short-term financial health, the primary concern is liquidity-whether the firm has sufficient short-term resources to meet near-term obligations as they come due. Examples of current liabilities include accounts payable, short-term loans, accrued expenses, and current portions of long-term debt. This information allows lenders to compute liquidity ratios such as the current ratio and quick ratio, which measure the firm's ability to cover short-term obligations with current assets. Long-term investments, long-term debt, and depreciation relate more to long-term solvency and accounting allocation rather than immediate cash requirements. Because the lender is specifically concerned about the company's ability to meetfinancial obligations in the near term, obligations requiring cash within the next year are the most relevant. Thus, option B accurately reflects the definition and purpose of current liabilities in financial statement analysis.

**NEW QUESTION # 44**
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