Latest Financial-Management Exam Duration, Sample Financial-Management Questions Answers

Financial Management (FIN3701): Sample/practice exam 2019, Questions and Answers

Financial Management (University of South Africa)

SU 1: Capital Budgeting and cash flows

1 Capital budgeting is the process used to______
  1 Evaluate the profitability, liquidity and solvency of the firm.
  2 Determine the minimum rate of return a firm must earn in order to maintain its market value.
  3 Determine if cash inflow will exceed cash outflow over the next three months.
  4 Evaluate and select long-term investments consistent with owner wealth maximisation.

2 Which one of the following is not an example of capital expenditure motive?
  1 First National Bank is evaluating the start-up of a new branch.
  2 SAA is considering the replacement of three Boeing 747s.
  3 Boston College has to buy stationery for one of their lecturers.
  4 KPMG is considering upgrading its 184 personal computers.

3 The steps in the capital budgeting process are ______.
  1 proposal generation, decision-making, implementation, review and analysis, follow-up
  2 proposal generation, review and analysis, decision-making, implementation, follow-up
  3 proposal generation, decision-making, implementation, follow-up
  4 proposal generation, review and analysis, decision-making, implementation

4 Each of the following statements is correct except
  1 An annuity is a stream of each annual cash flow.
  2 "Independent projects" means that the acceptance of one project eliminates the others from consideration.
  3 Capital rationing means the firm only has a limited amount of financing available for capital expenditure.
  4 A conventional cash flow pattern is one which involves an initial investment, followed by a series of inflows.

5 Relevant cash flows are the______
  1 incremental after-tax cash outflow and the resulting cash inflows
  2 operating cash inflows
  3 terminal cash flows
  4 sunk costs

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WGU Financial Management VBC1 Sample Questions (Q51-Q56):

NEW QUESTION # 51
Why is understanding exchange rate risk crucial for multinational corporations?

- A. Because fluctuations in exchange rates can impact firm value
- B. Because exchange rates are stable and enhance investment outcomes
- C. Because multinational operations simplify the financial planning process
- D. Because it allows companies to avoid the complexities of international operations

Answer: A

Explanation:
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.

NEW QUESTION # 52
Use Whole Pine Inc.'s financial statements for 20X3 below to answer the following question.
What is Whole Pine Inc.'squick ratiofor 20X3?

- A. 0.65
- B. 2.50
- C. 0.15
- D. 4.00

Answer: B

Explanation:
The quick ratio, also known as the acid-test ratio, measures a firm's ability to meet short-term obligations using its most liquid assets. It is calculated as:
(Cash + Accounts Receivable + Marketable Securities) ÷ Current Liabilities.
For Whole Pine Inc., quick assets include cash of $2,000 and accounts receivable of $500, totaling $2,500. Inventory is excluded because it is less liquid and may not be easily converted into cash.
Current liabilities consist of accounts payable of $1,000. Dividing $2,500 by $1,000 yields a quick ratio of 2.50. This indicates that the firm has $2.50 in highly liquid assets for every $1.00 of short-term obligations, suggesting strong short-term liquidity. Option C correctly reflects this calculation and interpretation.

NEW QUESTION # 53
How do financial markets reduce the cost for companies to obtain financing from the sale of equity?

- A. By reducing the total number of trades that occur
- B. By providing liquidity for securities to be sold
- C. By ensuring all trades are made
- D. By limiting the number of trades per day for each security

Answer: B

Explanation:
Financial markets reduce the cost of obtaining equity financing primarily by providing liquidity. Liquidity means that investors can buy and sell securities quickly and with relatively low transaction costs. When investors know they can easily sell shares in an active market, they are more willing to purchase newly issued stock in the first place. This stronger investor demand helps firms raise capital more efficiently and often at a better price. In other words, a liquid market lowers the return investors require for holding the stock, which reduces the firm's cost of equity capital. This is important in financial management because a lower cost of capital increases the number of investment projects that can create value for shareholders. The other choices do not explain the real benefit of organized financial markets. Merely ensuring all trades are made does not address financing cost. Limiting or reducing the number of trades would generally make markets less efficient and less liquid, not more attractive to investors. Therefore, C is the correct answer because liquidity is one of the key services financial markets provide, and it directly supports firms' ability to raise equity capital at a lower cost.

NEW QUESTION # 54
Why might investors choose to invest in junk bonds?

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

Answer: B

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 # 55
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 balance sheet method
- C. The asset disposal 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 # 56
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