

Financial-Management Test Lab Questions - Financial-Management Study Guides

Financial Management Study Guide

Chapter 1 - Overview of Finance

Finance Overview

Treasury Securities - Example is BOND issued by Federal Government to raise money.

Corporate Bonds - Issued by Companies to raise money

Bond is also a Debt, (Bonds are similar to Loans) – typically used by City Governments to build schools, fire departments, roads, etc.

2 types of Stocks – Common Stock and Preferred Stock

Preferred Stock (also called HYBRID, has more advantages than common – it's paid first during bankruptcy, it also pay dividends in arrears.

Stock - Shares of a company that are sold to you & I to raise money

Primary market – 1st market to raise money (capital) for the first time – i.e. Wells Fargo, Bank of America

IPO – Initial Public Offering - The first-time stocks or bonds are sold to raise money in Primary Market

S-1 PROSPECTUS/Brochure – Contains business information –i.e. address, business, Board of Directors, product, etc. and Financial overview of a company, required for IPO.

Syndicate - When two or more financial institutions work together to fund a loan or project.

Secondary Market – Drom the word “second”, after the 1st market. Example is NYSE, physical, buy and sell stocks and bonds after the IPO. NYSE is the LARGEST market

Dealer Market – Online, no physical location i.e.

Auction Market – NYSE is an example, buy and sell of stocks and bonds – similar to bidding at an Auction.

Specialist – Like intermediary, middleman, b/w seller and buyers of financial instruments, he uses his own money to buy. He is like a wholesaler -Someone that people go to buy stocks

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

NEW QUESTION # 36

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. Expanding the company globally
- C. Focusing solely on customer satisfaction
- D. Increasing employee 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 # 37

Why might a firm use a combination of methods to calculate the cost of common equity?

- A. To account for one method being significantly more complex
- B. To comply with regulatory requirements
- C. To achieve a more accurate and comprehensive estimate
- D. To focus exclusively on dividend policies

Answer: C

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 # 38

How does the global bond market impact the strategies of multinational corporations?

- A. By ensuring fixed interest rates on all international loans
- B. By enhancing incentives to raise capital domestically
- C. By offering diverse financing options beyond domestic markets
- D. By reducing the need for currency risk management

Answer: C

Explanation:

Multinational corporations (MNCs) often seek the lowest-cost and most flexible sources of long-term financing. The global bond

market expands their choices beyond domestic lenders and investors, enabling firms to issue debt in multiple countries, currencies, and structures (fixed vs. floating rates, maturities, secured vs. unsecured, and different covenant packages). This broad access can reduce the weighted average cost of capital (WACC) if foreign markets provide lower yields, deeper investor demand, or better terms for the issuer's credit profile. Global issuance can also support operational needs: an MNC earning revenues in euros or yen may issue bonds in those currencies to create a natural hedge, matching debt service with foreign-currency cash inflows and reducing exchange-rate exposure. However, the global bond market does not remove currency risk automatically (so B is incorrect), nor does it guarantee fixed interest rates (D is incorrect). While domestic issuance remains important, global markets increase strategic flexibility, allowing firms to optimize capital structure, diversify funding sources, manage refinancing risk, and tailor financing to geographic cash flows—core themes in international financial management.

NEW QUESTION # 39

What is a drawback of using the Gordon growth model for estimating the cost of common equity?

- A. It emphasizes short-term financial performance.
- B. It applies only to companies with stable dividend policies.
- C. It requires extensive market data analysis.
- D. It is too complex for general use.

Answer: B

Explanation:

The Gordon growth model estimates the cost of common equity based on dividends, assuming dividends grow at a constant rate indefinitely. While the model is simple and intuitive, its main drawback is that it can only be applied to firms that pay dividends and have stable, predictable growth rates. Many firms—especially young, high-growth, or technology companies—either do not pay dividends or experience volatile growth, making the model inappropriate for them. Additionally, small changes in the growth rate assumption can lead to large changes in estimated equity cost, increasing sensitivity and potential estimation error. Financial management texts emphasize that while the Gordon growth model is useful for mature, dividend-paying firms, it lacks flexibility across industries and life-cycle stages. Option D correctly identifies this key limitation.

NEW QUESTION # 40

Rusty RoboTech, a robotics technology company, has provided the following financial information for the year 20X3:

- * Sales Revenue: \$500,000
- * Net Income: \$50,000
- * Dividend Payout: 40% of Net Income
- * Total Assets at the beginning of 20X3: \$300,000
- * Total Liabilities at the beginning of 20X3: \$150,000
- * Equity at the beginning of 20X3: \$150,000
- * Historical Cash-to-Sales Ratio: 5%
- * Accounts Receivable-to-Sales Ratio: 15%
- * Inventory-to-Sales Ratio: 25%
- * Cost of Goods Sold-to-Sales Ratio: 43%

For the year 20X4, Rusty RoboTech projects a 20% increase in sales revenue. Other ratios and the dividend policy are expected to remain the same.

What is the projected inventory value for Rusty RoboTech at the beginning of 20X4?

- A. \$130,000
- B. \$120,000
- C. \$150,000
- D. \$140,000

Answer: C

Explanation:

Projected sales for 20X4 equal $\$500,000 \times 1.20 = \$600,000$. With the inventory-to-sales ratio expected to remain constant at 25%, projected inventory equals 25% of projected sales. Thus, $\text{inventory} = 0.25 \times \$600,000 = \$150,000$. This approach reflects common financial planning techniques where balance sheet items are forecast using stable ratios tied to sales growth. Such pro forma analysis helps managers anticipate future asset needs and financing requirements. Option D correctly applies the inventory-to- sales ratio to projected sales.

NEW QUESTION # 41

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