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1. **Characteristics of preferred stock includes:** -dividends in arrears

-dividends are cumulative

-higher payoff claim in a BK (has first dibs in a BK)

-considered "hybrid" (part stock/part bond)

-no fixed maturity date

-no voting rights

-can skip dividend payments

-dividends don't change year-after-year

-used in start ups (IPO)

2. **Preferred stock dividends:** can go without payment and pay in arrears thefollo

wing year

3. **Characteristics of common stock are:** -voting rights

-no maturity date

-corporate governance

-lower payoff claim in BK

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WGU Financial Management VBC1 Sample Questions (Q14-Q19):

NEW QUESTION # 14
What is the purpose of the Sarbanes-Oxley Act requirement for the board of directors to effectively represent shareholders?

- A. To increase stock prices
- B. To ensure the board's financial gain
- C. To represent shareholders' interests in good faith
- D. To manage daily operations

Answer: C

Explanation:
The Sarbanes-Oxley Act reinforces the board of directors' fiduciary duty to act in the best interests of shareholders. This includes providing independent oversight of management, ensuring financial reporting integrity, and protecting shareholder rights. SOX emphasizes board independence, particularly through audit committees composed of independent directors. Financial management theory recognizes the board as a key mechanism for reducing agency conflicts between management and shareholders. Option D correctly reflects this governance-focused objective.

NEW QUESTION # 15
What distinguishes free cash flow to equity (FCFE) from free cash flow to the firm (FCFF)?

- A. FCFE represents the total cash flow from operations that is available at the end of the period.
- B. FCFE is distributable only to debt holders, whereas FCFF is distributable only to equity holders.
- C. FCFE measures cash distributable to equity holders after all obligations are met, including debt payments.
- D. FCFE includes depreciation, amortization, and other non-cash expenses, while FCFF does not.

Answer: C

Explanation:
Free cash flow concepts are central to valuation. Free cash flow to the firm (FCFF) represents cash available to all capital providers-both debt and equity-before interest and principal repayments. In contrast, free cash flow to equity (FCFE) measures the cash available exclusively to common shareholders after all operating expenses, capital expenditures, working capital needs, and debt obligations (interest and principal) have been satisfied. This distinction determines which discount rate analysts use: FCFF is discounted at the weighted average cost of capital (WACC), while FCFE is discounted at the cost of equity. FCFE is especially useful when valuing equity directly or when a firm's leverage is stable and predictable. Option C correctly captures this defining difference, while the other options misstate cash flow allocation or confuse accounting adjustments with distributable cash.

NEW QUESTION # 16
What is a benefit of a firm extending credit to customers in a competitive market?

- A. Increased sales to non-cash buyers
- B. Immediate cash inflows from sales
- C. Reduced customer base due to credit terms
- D. Decreased sales due to increased prices

Answer: A

Explanation:
Extending credit allows firms to attract customers who are unable or unwilling to pay cash at the time of purchase. In competitive markets, offering favorable credit terms can increase sales volume, improve customer relationships, and enhance market share. While credit sales delay cash inflows and introduce default risk, they can generate higher revenues and profits if managed properly. Financial management texts stress the importance of balancing increased sales against the costs of credit, including collection expenses and bad debt losses. Option C correctly identifies the primary strategic benefit of extending credit in competitive environments.

NEW QUESTION # 17
How does country risk affect global financial management decisions?

- A. It reduces the complexity of international investments.
- B. It only affects firms with domestic operations facing international competition.
- C. It necessitates strategies to mitigate potential losses from instability or unfavorable policies.
- D. It is typically considered irrelevant in financial planning since it is unpredictable.

Answer: C

Explanation:
Country risk refers to the possibility that political, economic, legal, or social conditions in a foreign country will negatively affect a firm's operations and cash flows. In global financial management, this risk directly influences investment appraisal, financing choices, and risk management policies. For capital budgeting, higher country risk can lower expected cash flows (e.g., through capital controls, expropriation risk, supply disruptions, or taxation changes) and/or increase the discount rate applied to foreign projects. For financing, lenders and investors demand higher returns in riskier jurisdictions, affecting borrowing costs and feasible capital structures. Firms respond by using mitigation strategies such as diversification across countries, contractual protections, political risk insurance, careful partner selection, staging investments, and hedging currency exposures when relevant. Country risk also drives decisions about where to locate production, how to structure subsidiaries, and whether to denominate contracts and debt in local or hard currencies. Because country conditions can materially change expected outcomes, it is a core planning input rather than irrelevant or simplifying, making option A the correct statement.

NEW QUESTION # 18
What is a drawback of using the Gordon growth model for estimating the cost of common equity?

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

Answer: D

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 # 19
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Apple decides whether or not to approve the entitlements for each application, But Financial-Management despite the arguments made in the white paper, safety concerns including potential uses of these aircraft by criminals and terrorists are still big issues.

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