1. Award: **10.00 points**

If the Hunter Corp. has an ROE of 13 and a payout ratio of 21 percent, what is its sustainable growth rate? **(Do not round intermediate calculations and enter your answer as a percent rounded to 2 decimal places, e.g., 32.16.)**

Sustainable growth rate ____ %

Hints

Hint #1

References

Worksheet Difficulty: 1 Basic Section: 3.5 External Financing and Growth

2. Award: **10.00 points**

The most recent financial statements for Williamson, Inc., are shown here (assuming no income taxes):

Income Statement			Balance Sheet		
Sales	$ 9,200	Assets	$27,000	Debt	$13,000
Costs	6,430			Equity	14,000
Net income	$ 2,770	Total	$27,000	Total	$27,000

Assets and costs are proportional to sales. Debt and equity are not. No dividends are paid. Next year's sales are projected to be $10,304.

What is the external financing needed? **(Do not round intermediate calculations and round your answer to the nearest whole number, e.g., 32.)**

External financing needed $ ____

Hints

Hint #1

References

Worksheet Difficulty: 1 Basic Section: 3.4 Financial Models

3. Award: **2.00 points**

Which one of the following depicts a correct relationship?

- ○ Dividend payout ratio = 1 – Retention ratio
- ○ ROE = 1 – ROA
- ○ Total asset turnover = 1 + Capital intensity ratio
- ○ ROA = ROE × (1 + Debt-equity ratio)
- ○ Equity multiplier = 1 – Debt-equity ratio

References

Multiple Choice Section: 3.3 The DuPont Identity Section: 3.5 External Financing and Growth

Difficulty: 2 Intermediate Section: 3.4 Financial Models

4. Award: **2.00 points**

The sustainable growth rate will be equivalent to the internal growth rate when, and only when,:

- ○ the plowback ratio is positive but less than 1.
- ○ a firm has a debt-equity ratio equal to 1.
- ○ the retention ratio is equal to 1.
- ○ a firm has no debt.

- the growth rate is positive.

References

Multiple Choice *Difficulty: 2 Intermediate* *Section: 3.5 External Financing and Growth*

5. *Award:* **2.00 points**

Marcie's Mercantile wants to maintain its current dividend policy, which is a payout ratio of 35 percent. The firm does not want to increase its equity financing but is willing to maintain its current debt-equity ratio. Given these requirements, the maximum rate at which Marcie's can grow is equal to:

- the sustainable rate of growth.
- 35 percent of the internal rate of growth.
- 65 percent of the internal rate of growth.
- 65 percent of the sustainable rate of growth.
- the internal rate of growth.

References

Multiple Choice *Difficulty: 2 Intermediate* *Section: 3.5 External Financing and Growth*

6. *Award:* **2.00 points**

One of the primary weaknesses of many financial planning models is that they:

- rely too much on financial relationships and too little on accounting relationships.
- ignore cash payouts to stockholders.
- ignore the size, risk, and timing of cash flows.
- ignore the goals and objectives of senior management.
- are iterative in nature.

References

Multiple Choice *Difficulty: 2 Intermediate* *Section: 3.6 Some Caveats Regarding Financial Planning Models*

7. *Award:* **2.00 points**

The extended version of the percentage of sales method:

- ○ separates accounts that vary with sales from those that do not vary with sales.
- ○ assumes that all net income will be paid out in dividends to stockholders.
- ○ is based on a capital intensity ratio of 1.0.
- ○ requires that all financial statement accounts change at the same rate.
- ○ assumes that all net income will be retained by the firm and offset by a reduction in debt.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 3.4 Financial Models*

8. *Award:* **2.00 points**

Which account is least apt to vary directly with sales?

- ○ accounts payable
- ○ inventory
- ○ cost of goods sold
- ○ notes payable
- ○ accounts receivable

References

Multiple Choice *Section: 3.3 The DuPont Identity* *Section: 3.5 External Financing and Growth*

Difficulty: 2 Intermediate *Section: 3.4 Financial Models*

9. *Award:* **2.00 points**

Financial planning, when properly executed:

- ◯ is based on the internal rate of growth.
- ◯ reduces the necessity of daily management oversight of the business operations.
- ◯ ignores the normal restraints encountered by a firm.
- ◯ ensures internal consistency among the firm?s various goals.
- ◯ eliminates the need to plan more than one year in advance.

References

Multiple Choice	*Difficulty: 2 Intermediate*	*Section: 3.5 External Financing and Growth*

10. *Award:* **2.00 points**

The external funds needed (EFN) equation projects the addition to retained earnings as:

- ◯ *PM* ×? Sales × (1 - *d*).
- ◯ *PM* ×Projected sales.
- ◯ *PM* × ? Sales.
- ◯ *PM* × Projected sales × (1 - *d*).
- ◯ Projected sales × (1 - *d*).

References

Multiple Choice	*Difficulty: 2 Intermediate*	*Section: 3.4 Financial Models*

11. *Award:* **2.00 points**

In the financial planning model, the external financing needed (EFN) as shown on a pro forma balance sheet is equal to the changes in assets:

- minus the changes in liabilities.
- plus the changes in both liabilities and equity.
- minus the changes in both liabilities and equity.
- plus the changes in liabilities minus the changes in equity.
- minus the change in retained earnings.

References

Multiple Choice *Difficulty: 2 Intermediate* *Section: 3.4 Financial Models*

12. *Award:* ***2.00 points***

The maximum rate at which a firm can grow while maintaining a constant debt-equity ratio is best defined by its:

- sustainable rate of growth.
- rate of return on equity.
- rate of return on assets.
- average historical rate of growth.
- internal rate of growth.

References

Multiple Choice *Difficulty: 2 Intermediate* *Section: 3.5 External Financing and Growth*

13. *Award:* ***2.00 points***

Since the credit decision usually includes riskier customers, the decision should adjust for this by:

- increasing the variable cost per unit.
- discounting the cash inflows at a higher discount rate.
- determining the probability that customers will not pay and reducing the expected cash flow.

- decreasing the variable cost per unit.
- discounting the net cash flows at a lower discount rate.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.5 Credit Analysis*

14. *Award:* **2.00 points**

The most common means of financing a temporary cash deficit is a:

- short-term secured bank loan.
- short-term issue of corporate bonds.
- long-term unsecured bank loan.
- short-term unsecured bank loan.
- long-term secured bank loan.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.5 The Short-Term Financial Plan*

15. *Award:* **2.00 points**

All of the following can provide credit information about a customer except:

- credit reports.
- the amount of goods the customer desires to purchase.
- banks.
- the customer's financial statements.
- the customer's current payment history with the seller.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.5 Credit Analysis*

16. *Award:* **2.00 points**

The minimum level of inventory that a firm wants to keep on hand at all times is referred to as:

- safety stock.
- the base level.
- the reorder point.
- keiretsu.
- the opportunity cost.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.8 Inventory Management Techniques*

17. *Award:* **2.00 points**

The operating cycle can be decreased by:

- paying accounts payable faster.
- collecting accounts receivable faster.
- discontinuing the discount given for early payment of an accounts receivable.
- increasing the accounts payable turnover rate.
- decreasing the inventory turnover rate.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

18. *Award:* **2.00 points**

The cash cycle is defined as the time between:

- selling a product and paying the supplier of that product.
- the sale of inventory and cash collection.
- the arrival of inventory and cash collected from receivables.
- cash disbursements and cash collection for an item.
- selling a product and collecting the accounts receivable.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

19. *Award:* **2.00 points**

When credit is granted to another firm this gives rise to a(n):

- accounts receivable and is called a consumer credit.
- trade receivable and is called an installment note.
- trade receivable and is called a secured loan.
- credit due and is called an installment note.
- accounts receivable and is called trade credit.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.1 Credit and Receivables*

20. *Award:* **2.00 points**

Given a fixed level of sales and a constant profit margin, an increase in the accounts payable period can result from:

- an increase in the cost of goods sold account value.
- an increase in the cash cycle.

- a decrease in the average accounts payable balance.
- a decrease in the operating cycle.
- an increase in the ending accounts payable balance.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

21. *Award:* **2.00 points**

On September 1, a firm grants credit with terms of 2/10 net 30. The creditor:

- receives a discount of 2 percent when payment is made at least 10 days prior to October 1.
- receives a discount of 2 percent when payment is made within 10 days.
- receives a discount of 2 percent when payment is made on September 1and pays a penalty of 10 percent if payment is made after October 1.
- must pay a penalty of 2/10 of one percent when payment is made later than October 1.
- must pay a penalty of 10 percent when payment is made later than 2 days after October 1.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.2 Terms of the Sale*

22. *Award:* **2.00 points**

Selling goods and services on credit is:

- an investment in a customer.
- never a wise decision.
- never necessary unless customers cannot pay for the goods.
- permissible only if your bank lends the money.
- a decision independent of customers.

References

Multiple Choice *Difficulty: 1 Basic* *Section: 28.1 Credit and Receivables*

23. *Award:* **10.00 points**

Brown's Market currently has an operating cycle of 76.8 days. It is planning some operational changes that are expected to decrease the accounts receivable period by 2.8 days and decrease the inventory period by 3.1 days. The accounts payable turnover rate is expected to increase from 9 to 11.5 times per year. If all of these changes are adopted, what will be the firm's new operating cycle?

- 68.4 days
- 63.3 days
- 70.9 days
- 57.9 days
- 73.4 days

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

24. *Award:* **10.00 points**

A firm has an inventory turnover rate of 15.7, a receivables turnover rate of 20.2, and a payables turnover rate of 14.6. How long is the cash cycle?
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- 13.08 days
- 28.46 days
- 16.32 days
- 23.37 days
- 32.87 days

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

25. *Award:* ***10.00 points***

On average, D & M sells its inventory in 37 days, collects on its receivables in 3.4 days, and takes 35 days to pay for its purchases. What is the length of the firm's operating cycle?

- ○ –1.4 days
- ○ 41.6 days
- ○ 40.4 days
- ○ 33.6 days
- ○ 5.4 days

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*

26. *Award:* ***10.00 points***

Jordan and Sons has an inventory period of 48.6 days, an accounts payable period of 36.2 days, and an accounts receivable period of 29.3 days. Management is considering offering a 5 percent discount if its credit customers pay for their purchases within 10 days. This discount is expected to reduce the receivables period by 17 days. If the discount is offered, the operating cycle will decrease from ____ days to ____ days.

- ○ 54.2; 37.2
- ○ 77.9; 60.9
- ○ 77.9; 94.9
- ○ 28.3; 45.3
- ○ 28.3; 11.3

References

Multiple Choice *Difficulty: 1 Basic* *Section: 26.2 The Operating Cycle and the Cash Cycle*