FINANCIAL ANALYSIS & DECISION MAKING

1. The two basic measures of liquidity are:
   a. inventory turnover and current ratio
   b. current ratio and quick ratio
   c. current ratio and total asset turnover
   d. gross profit margin and ROE

2. ABC Corporation extends credit terms of 45 days to its customers. Its credit collection would be considered poor if its average collection period was:
   a. 36 days
   b. 57 days
   c. 47 days
   d. 30 days

3. The _________ ratios provide the information critical to the long-run operation of the firm.
   a. activity
   b. profitability
   c. debt
   d. liquidity

4. A firm with sales of $1,000,000, net profits after taxes of $30,000, total assets of $1,500,000, and total liabilities of $750,000 has a return on equity of:
   a. 4 percent
   b. 20 percent
   c. 3 percent
   d. 15 percent

5. Which one of the following statements is correct for a firm that is 55 percent debt-financed and the value of equity equals $58 million?
   a. The debt is valued at approximately $68 million.
   b. The debt is valued at approximately $32 million.
   c. The firm is valued at approximately $105 million.
   d. The firm is valued at approximately $129 million.

6. “Double taxation” refers to:
   a. corporations paying taxes on both dividends and retained earnings
   b. paying taxes on profits at the corporate level and dividends at the personal level
   c. the fact that marginal tax rates are doubled for corporations
   d. all partners paying equal taxes on profits

7. An annuity and an annuity due that have the same number of payments also have the same present value if \( r = 10\% \). Which one has the higher payment?
   a. They both must have the same payment since the present values are the same.
   b. The annuity has the higher payment.
   c. The annuity due has the higher payment.
   d. There is no way to tell which has the higher payment.
8. Protective covenants are offered for the benefit of:
   a. preferred shareholders
   b. common shareholders
   c. both common and preferred shareholders
   d. bondholders

9. A 10-year corporate bond pays $75 interest semiannually. What is the bond's price if the required return is 7 percent?
   a. $1,175.23
   b. $1,052.79
   c. $1,035.53
   d. $1,181.74

10. A corporation has promised to pay $1,000 20 years from today for each bond sold now. No interest will be paid on the bonds during the 20 years, and the bonds are said to offer a 7 percent interest rate. Approximately how much should an investor pay for each bond?
    a. $70.00
    b. $857.34
    c. $629.65
    d. $258.42
1. B
2. B
3. C
4. A
5. D
6. B
7. B
8. D
9. C
10. D