

PMIR Quiz 1

Date- 11/01/2010; Time: 10 minutes

Note: (a) Please tick (✓) against the nearest correct answer; (b) Each correct answer +1 mark, each wrong answer -1 mark

1. Finance includes decisions related to a firm's:
 - A) net working capital, such as determining the appropriate amount of long-term debt to be acquired to finance a new capital project.
 - B) capital budgeting, such as determining the optimal level of inventory.
 - C) capital structure, such as determining the extent to which debt should be used to finance the firm's operations.**
 - D) capital expenditures, such as deciding when a supplier should be paid.
 - E) net working capital, such as determining the amount to be distributed as a dividend.

2. The ideal capital structure for a firm is the mixture of debt and equity that:
 - A) equates the level of debt to the level of equity.
 - B) minimizes the long-term debt.
 - C) minimizes the annual interest expense.
 - D) maximizes both the level of debt and the level of equity.
 - E) maximizes the value of the firm.**

3. Which one of the following functions should be assigned to the controller, rather than the treasurer?
 - A) cash management
 - B) financial planning
 - C) capital expenditure
 - D) tax planning**
 - E) credit management

4. The allocation of manufacturing costs to various units of production is a function which is assigned to the:
 - A) treasurer.
 - B) corporate director.
 - C) controller.**
 - D) chairman of the board.
 - E) vice president of operations.

5. Which of the following are components of stockholders' equity?
 - I. common stock
 - II. capital surplus
 - III. long-term debt
 - IV. retained earnings
 - A) I and IV only
 - B) I and II only
 - C) II and III only
 - D) II and IV only
 - E) I, II, and IV only**

6. DJ Companies sold \$20,000 in stock and issued \$15,000 in debt this past year. The firm also repaid \$18,000 on its loans and paid \$3,200 in interest. During the year, DJ Companies paid quarterly dividends which totaled to \$8,000 for the year and earned a net income of \$22,300. The beginning balances at the start of the year were:

Preferred stock - \$10,000	Accumulated retained earnings - \$78,600
Treasury stock - \$5,000	Capital surplus - \$22,300
Long-term debt - \$41,000	Common stock - \$50,000

What is the book value of stockholders' equity at the end of the year?

- A) \$177,900
- B) \$187,900
- C) \$185,200
- D) \$190,200**
- E) \$200,200

7. The financial records of Taylor and Daughter, show current assets of \$850 and net fixed assets of \$2,450. The firm has \$700 in liabilities, which is the amount the firm would need to pay today to extinguish its debt. The firm estimates that it could sell its current assets for \$800 and its fixed assets for \$1,990. What is the market value of the stockholders' equity?

- A) \$250
- B) \$800
- C) \$1,200
- D) \$2,090**
- E) \$2,600

8. A firm's balance sheet shows current assets of \$410, net fixed assets of \$685, long-term debt of \$320, and owners' equity of \$590. What is the value of the firm's current liabilities?

- A) \$35
- B) \$165
- C) \$185**
- D) \$225
- E) \$825

9. The balance sheet of the Wilson's Market shows current assets of \$38,700. These assets could probably be sold today for \$35,000 cash. The firm owes \$32,600 to its short-term creditors and \$52,000 to its long-term creditors. The equipment of the firm has a book value of \$74,800 and a market value of \$78,900. What is the book value of the stockholders' equity?

- A) \$400
- B) \$600
- C) \$1,300
- D) \$28,900**
- E) \$29,300

10. A firm has cash of \$15, accounts payable of \$18, inventory of \$102, net fixed assets of \$147, accounts receivable of \$31, and stockholder's equity of \$87. The current assets equal _____ and the long-term debt is:

- A) \$148; \$187.
- B) \$148; \$190.**
- C) \$148; \$208.
- D) \$295; \$190.
- E) \$295; \$208.