Business Finance

Chapters 1 & 2

Question Sheet

1. A branch of financial research that for potential conflict between the owners and the firm managers is referred to as
   a. Insider Trading
   b. Agency Theory
   c. Capital Structure Theory
   d. Market efficiency

2. A study of the importance between debt and equity in influencing the firms value received through analytical investing
   a. Insider Trading
   b. Agency Theory
   c. Capital Structure Theory
   d. Market efficiency

3. Anyone who has the knowledge before public dissemination of that information stands to benefit from either good news or bad news is referred to as
   a. Insider Trading
   b. Agency Theory
   c. Money Markets
   d. Market efficiency
   e. None of the above

4. A meeting place for individuals, corporations and institutions that either need money or are willing to invest or lend money is referred to as
   a. Money Market
   b. Secondary Market
   c. Financial Market
   d. Investment Market

5. Treasury bills, commercial paper and corporate would be examples of securities sold in
   a. Auction Markets
   b. Dealer Markets
   c. Money Markets
   d. Capital Markets
6. Common shares, preferred shares and government bonds would be considered securities sold in
   a. Auction Markets
   b. Dealer Markets
   c. Money Markets
   d. Capital Markets

7. ABC Corporation has total sales revenue of $200,000 and a contribution margin of $140,000 for the current year. The inflation rate for the previous year was estimated to be 3.2%. Calculate the variable cost for the current year
   a. $60,000
   b. $1,920
   c. $61,920
   d. $58,080

8. ABC Corporation had an operating profit of $150,000 for the year 2015. Cumulative dividends were paid to preferred shares for $26,250 and $2 to common shares. The company had 38,000 common shares outstanding. ABC paid income tax of $40,000 for the year 2015. Calculate the company’s payout ratio?

9. AZ Ltd had total earnings after taxes of $200,000 for the previous year with 90,000 outstanding common shares. Assume for the current year the company has issued additional 55,000 common shares and there will be an increase of 20% in total earnings after tax. Calculate the company’s current EPS.

10. Caves Corp had $100,000 earnings available for common shares for the year 2015. Common shares issued and outstanding for the year were 25,000. Calculate Caves price per earnings ratio (P/E ratio) assuming the current share price is $50. Calculate the increase in retained earnings for the year if dividends paid to common shares were $28,300. Assume income tax rate for the year is 20%.

11. Calculate the company’s P/E ratio if the market value of a common share is 1.8 times the book value per common share. Assume the company had a total of 125,000 common shares outstanding with an EPS of 0.90, total shareholders’ equity of $200,000 and preferred shares worth $75,000.

12. Reduction of taxes or otherwise payable as a result of an allowable deduction of an expense from income or expenses multiplied by the tax rate is
   a. Allowance for doubtful accounts
   b. Marginal tax rate
   c. Capital cost allowance
   d. Tax shield