100% Money Back Guarantee

Vendor: IMANET

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QUESTION 1

The DCL Corporation is preparing to evaluate the capital expenditure proposals for the coming year.

Because the firm employs discounted cash flow methods of analyses. the cost of capital for the firm must

be estimated. The following information for DCL Corporation is provided.

Market price of common stock is $50 per share.

The dividend next year is expected to be $2.50 per share.

Expected growth in dividends is a constant 10%.

New bonds can be issued at face value with a 13% coupon rate.

The current capital structure of 40% long-term debt and 60% equity is considered to be optimal

Anticipated earnings to be retained in the coming year are $3 million.

The firm has a 40% marginal tax rate.

If the firm must assume a 10% flotation cost on new stock issuances. what is the cost of new common

stock?

A. 1611%.

B. 15.56%.

C. 15.05%.

D. 15.00%.

Correct Answer: B

The formula to determine the cost of retained earnings, with the additional flotation cost entered into the calculation, is Cost of new common stock = {D, + [P x (1 -- Flotation cost)]} + G Where: Di = next dividend Po = current price G = growth rate in dividends per share (but the model assumes that the dividend-payout ratio, retention rate, and therefore the EPS growth rate are constant). This yields a cost of new common stock of 15.56%. Cost of new common stock = {$2.50 ` [$50.00 x (1.0-- 0..1)] + 01 = ($2.50 + $45.00) + 01 = 0.0556 + 0.1 = 0.1556

QUESTION 2

Hagar Company\\'s bank requires a compensating balance of 20% on a $100,000 loan. If the stated interest on the loan is 7%, what is the effective cost of the loan?

A. 5.83%

B. 7.00%

C. 8.40%

D. 8.75%

Correct Answer: D

QUESTION 3

A manufacturing firm planned to manufacture and sell 100,000 units of product during the year at a variable cost per unit of $4.00 and a fixed cost per unit of $2.00. The firm fell short of its goal and only manufactured 80,000 units at a total incurred cost of $515,000. The firm\\'s manufacturing cost variance was

A. $85,000 favorable.

B. $35,000 unfavorable.

C. $5,000 favorable.

D. $5,000 unfavorable.

Correct Answer: C

The company planned to produce 100,000 units at $6 each ($4 variable + $2 fixed cost), or a total of $600,000, consisting of $400000 of variable costs and $200,000 of fixed costs. Total production was only 80,000 units at a total cost of $515,000. The flexible budget for a production level of 80,000 units includes variable costs of $320,000 ($4 x 80,000 units). Fixed costs would remain at $200,000. Thus, the total flexible budget costs are $520,000. Given that actual costs were only $515,000, the variance is $5,000 favorable.

QUESTION 4

In Michael F. Porter\\'s model of the value creation chain1 the primary activities include

A. Logistics, operations, marketing and sales, and service.

B. Procurement, infrastructure, operations, and service.

C. Procurement, infrastructure, operations, and technology development.

D. Procurement, infrastructure, human resources, and technology development.

Correct Answer: A

The model consists of primary and supporting activities. The primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service. Inbound logistics activities involve the firms\\' capture of materials to be processed. Operations activities are conversion processes. Outbound logistics activities include shipment of products. Marketing and sales activities are the promotion and sale of final products. Service activities provide customer service. The four support activities are infrastructure (e.g., administration, finance, and planning), procurement, human resources, and technology development.

QUESTION 5

Pontotoc Industries manufactures a product that is used as a subcomponent by other manufacturers. It has the following price and cost structure: Pontotoc received a special, one-time order for 1,000 units of its product. However, Pontotoc has an alternative use for this capacity that will result in a contribution of $20,000. The minimum unit price for this special, onetime order is in excess of

Selling price		$ 300
Costs		
Direct materials	40	
Direct labor	30	
Variable manufacturing overhead	24	
Fixed manufacturing overhead	60	
Variable selling	6	
Fixed selling and administrative	20	(180)
Operating margin		$ 120

A. $200

B. $180

C. $140

D. $120

Correct Answer: D

QUESTION 6

Of the following decisions, capital budgeting techniques would least likely be used in evaluating the

A. Acquisition of new aircraft by a cargo company.

B. Design and implementation of a major advertising program.

C. Trade for a star quarterback by a football team.

D. Adoption of a new method of allocating nontraceable costs to product lines.

Correct Answer: D

Capital budgeting is the process of planning expenditures for investments on which the returns are expected to occur over a period of more than 1 year. Thus, capital budgeting concerns the acquisition or disposal of long-term assets and the financing ramifications of such decisions. The adoption of a new method of allocating nontraceable costs to product

lines has no effect on a company\\'s cash flows, does not concern the acquisition of long- term assets, and is not concerned with financing. Hence, capital budgeting is irrelevant to such a decision.

QUESTION 7

Using the capital asset pricing model (CAPM), the required rate of return for a firm with a beta of 1.25 when the market return is 14% and the risk-free rate is 6% is

A. 6.0%

B. 7.5%

C. 17.5%

D. 16.0%

Correct Answer: D

QUESTION 8

The profitability index approach to investment analysis

A. Fails to consider the timing of project cash flows.

B. Considers only the project\\'s contribution to net income and does not consider cash flow effects.

C. Always yields the same accept/reject decisions for independent projects as the net present value method.

D. Always yields the same accept/reject decisions for mutually exclusive projects as the net present value method.

Correct Answer: C

The profitability index is the ratio of the present value of future net cash inflows to the initial net cash investment. It is a variation of the net present value (NPV) method and facilitates the comparison of different-sized investments. Because it is based on the NPV method, the profitability index will yield the same decision as the NPV for independent projects. However, decisions may differ for mutually exclusive projects of different sizes.

QUESTION 9

Madengrad Company manufactures a single electronic product called Precisionmix. This unit is a batch-density monitoring device attached to large industrial mixing machines used in flour, rubber, petroleum, and chemical manufacturing. Precisionmix sells for $900 per unit. The following variable costs are incurred to produce each Precisionmix device: Madengrad\\'s income tax rate is4O%, and annual fixed costs are $6,600,000. Except for an operating loss incurred in the year of incorporation, the firm has been profitable over the last 5 years.The annual sales volume required for Madengrad Company to break even is

Direct labor	$180
Direct materials	240
Factory overhead	105
Total variable production costs	525
Marketing costs	75
Total variable costs	$600

A. 22,000 units.

B. 11,000units.

C. 8,400 units.

D. 13,888 units.

Correct Answer: A

The formula for the breakeven point in units divides the fixed costs by the unit contribution margin ($900 selling price -- $600 variable costs $300). Hence, the breakeven point is 22,000 units ($6,600,000 + 300).

QUESTION 10

Alberto Corp. has common and preferred shares outstanding with the following characteristics:

	Common Shares	Preferred Shares
Number of shares outstanding	50,000	25,000
Dividends paid during the year	$100,000	$50,000
Year-end market price per share	$10	$5
Book value of equity	$500,000	$250,000

For the year just ended, the company had the following statement of income:

Sales revenue	$1,000,000
Cost of goods sold	(300,000)
Depreciation expense	(100,000)
Earnings before interest and tax	$ 600,000
Interest expense	(100,000)
Earnings before tax	$ 500,000
Tax expense	(250,000)
Net income	$ 250,000

Alberto Corp. has earnings per share of

A. $2.67

B. $3.33

C. $4.00

D. $5.00

Correct Answer: C

EPS equals the income available for distribution to common shareholders divided by the number of common shares outstanding, or $4.00 [($250,000 NI - $50,000 preferred dividends) ?50,000 common shares]

QUESTION 11

Formal written policies are normally recommended. However, the presence of certain condition in an organization minimizes the need for written policies. One condition that minimizes the need for written policies is a?

A. High division of labor

B. Strong organizational culture.

C. Large span of control.

D. Strict unity of command.

Correct Answer: B

If the culture is strong, the organization\\'s key values are intensely held and widely shared. Substantial training has been expended to achieve this high degree of acceptance, minimizing the need for formal, written policies.

QUESTION 12

When considering a special order that will enable a company to make use of currently idle capacity. which of the following costs is irrelevant?

A. Materials.

B. Depreciation.

C. Direct labor.

D. Variable overhead.

Correct Answer: B

Because depreciation will be expensed whether or not the company accepts the special order, it is irrelevant to the decision. Only the variable costs are relevant.