FIN 301 – Exam 1 – Practice Exam Solutions

1. E – Return on equity = 70%

   CA + FA = CL + LTD + SE
   $500 + $260 = $320 + $240 + SE
   SE = $200

   CR = CA / CL
   CR = $500 / $320
   CR = 1.56

   Asset turnover = Sales / Total assets
   Asset turnover = $1,060 / ($500 + $260)
   Asset turnover = 1.39

   Debit to equity ratio = LTD / Equity
   Debit to equity ratio = $240 / $200
   Debit to equity ratio = 1.20

   Return on equity = Net income / Shareholder's equity
   Return on equity = $140 / $200
   Return on equity = 0.70 = 70%

2. B – Negative 42%

   Growth rate (percentage) = [(New – Old) / Old] x 100
   Growth rate (percentage) = [($14 – $24) / $24] x 100
   Growth rate (percentage) = –42%

3. B – Pied Piper is the most likely to default on its debt

   Current ratio = Current assets / Current liabilities – Measures a company's liquidity. As its current ratio increases, the company becomes more liquid. Dunder Mifflin is the most liquid company. Pied Piper is the least liquid company.

   Inventory turnover = COGS / Inventory – Measures a company's ability to manage its inventory. As inventory turnover ratio increases, the company is more effective managing inventory. Dunder Mifflin is the most effective company for managing inventory. TGS is the least effective at managing its inventory.

   Times interest earned = EBIT / Interest expense –As times interest earned increases, a company's risk of defaulting on its debt goes down. TGS is the least likely to default on debt because it has the highest times interest earned. Pied Piper is the most likely to default on debt because it has the lowest times interest earned.

4. E – Insurance

5. E – Both C and D

6. D – Dividends are a cash flow from **financing** activities

7. C – Times interest earned = 2.67x

   Total asset turnover = Sales / Total assets
   Total asset turnover = $16,000 / $15,000
   Total asset turnover = 1.07

   Common size interest expense = Interest expense / Net sales
   Common size interest expense = $1,500 / $16,000
   Common size interest expense = 0.094 = 9.4%

   Times interest earned = EBIT / Interest expense
   Times interest earned = $4,000 / $1,500
   Times interest earned = 2.67x

   Return on assets = Net income / Total assets
   Return on assets = $1,600 / $15,000
   Return on assets = 0.107 = 10.7%

   Net profit margin = Net income / Sales
   Net profit margin = $1,600 / $16,000
   Net profit margin = 0.100 = 10.0%

8. A – Dunder Mifflin does the worst job generating profits from its assets

   Return on assets = Net income / Total assets – Tell us how much profit is generated per dollar of total assets. As ROA increases, it means the company is doing a better job generating profit from its assets. Dunder Mifflin does the worst job generating profit from its assets. TGS does the best job generating profit from its assets.

   Net profit margin = Net income / Sales – Tell us how much income we are generating per sales dollar. As net profit margin increases, it means the company is doing a better job generating profit from sales. Pied Piper is the best company at generating profits from sales. Dunder Mifflin is the worst company at generating profits from sales.

   Debt to equity = Long-term debt / Equity – Tell us how much debt a company is carrying per dollar of equity. As the debt to equity ratio increases, a firm becomes more leveraged. Pied Piper is the most leveraged firm. TGS is the least leveraged firm.

9. E – Companies that generate free cash flow

10. B – They have low P/E ratios because they have low expected growth. A company's price-to-earnings (P/E) ratio calculates the market price of stock per $1 of earnings. A high P/E ratio indicates investor confidence in a company's ability to grow and earn higher future profits. Utility companies don't usually have many growth prospects, so they tend to have low P/E ratios.

11. B – They require new investment dollars to be able to continue to operate.

12. E – Both C and D. Suppliers and bankers use liquidity ratios to determine a company's ability to pay its short-term obligations.

13. C – 15%. This is the average ROE for the S&P 500.

14. E – Both A and D. The ease of being able to get a home loan led to the excessive investment in the housing market that caused the housing market bubble.

15. A – 10K, 10Q

16. D – An increase in the U.S. inflation rate

17. B – The CFO is the head accountant of a company. This answer is an incorrect statement because the controller is the head accountant of the company. Both the controller and the treasurer report directly to the CFO.

18. C – $500,000

    Current assets + PP&E + Other assets = Current liabilities + Long-term debt + Shareholders' equity
    $500,000 + $100,000 + $200,000 = $100,000 + $200,000 + SE
    SE = $500,000

19. B – $325,000. Net income and the sale of equipment are both sources of cash inflows. Depreciation is a noncash expense. We need to add the depreciation expense to net income because depreciation reduces net income but it does not reduce cash flows. Finally, a repurchase of common stock is a cash outflow because the company is spending cash to acquire shares of its stock on the open market.

    It is important to note that this particular problem is asking for us to solve for net cash flow for the company as a whole. Make sure to pay attention to whether you are asked for just net cash flow or net cash flow for a particular section of the statement of cash flows.

    Net cash flow = $300,000 + $50,000 + $75,000 – $100,000 = $325,000

20. B – That the expenses related to the sale of goods must be matched in that period.

21. A – It was originally a textile company.

22. D – Shifting current income to later periods.

23. C – Maximizing spending on all projects. Make sure to note that all of the other answers are ways to increase shareholder value.

24. D – Preparing financial statements. Make sure you know which responsibilities are related to the controller and which responsibilities are related to the treasurer. The controller is the company's head accountant, and the treasurer is in charge of the finance side of the company.

25. D – They report as of a certain interval in time. This statement is false because the balance sheet is the only financial statement that reports as of a specific date and time.

26. C – Corporations have the most trouble raising capital. This statement is false because corporations are the best organizational form for raising capital.

27. B – Stockholders are the last to be compensated in the event of a bankruptcy.

28. B – Asset diversification

29. B – Ratio analysis

30. B – Riskier investments usually have lower returns. This statement is false because there is a direct trade-off between risk and return. Riskier investments will generate higher returns.

31. A – Stock prices immediately reflect new information. As soon as information is publically available, it is almost immediately reflected in a firm's stock price.

32. D – Stockholders are not protected by contracts while the other stakeholders are protected by contracts. In the event of liquidation, stakeholders are only owed the firm's residual cash flows after everyone else has been paid.

33. B – Management investing in projects that serve management more than their shareholders. This is considered to be the largest agency cost. The other main agency cost is management over spending on perks, like corporate jets.

34. B – Audited financial statements. The others are examples of external control mechanisms.

35. B – They report, over an interval of time, the net assets generated, the net assets consumed, and the net income. This is good wording to know because it is kind of a strange way to say what the income statement reports. The income statement takes all revenues minus all expenses to find net income. Net assets generated means revenues, and net assets consumed means expenses.

36. B – Gross profit = $8,000; operating profit = $5,800

    Gross profit = Sales – Cost of goods sold
    Gross profit = $15,000 – $7,000 = $8,000

    Operating profit (EBIT) = Gross profit – SG&A expenses – Depreciation expense – Other operating exp
    Operating profit (EBIT) = $8,000 – $1,000 – $1,200 = $5,800

    *Note that you did not need to use interest expense or tax expense to solve for operating profit. Refer to the packet's section on the income statement for more information on this topic.

37. D – 53%

    Gross profit margin percent = Gross profit / Sales
    Gross profit margin percent = $8,000 / $15,000 = 0.53 = 53%

38. B – $102 billion

    Market cap = Current stock price x Number of shares outstanding
    Market cap = $25.50 x 4 billion = $102 billion

39. D – Financial crises are the result of overinvestment in a market or specific areas of the economy.

40. D – Both A and B

41. B – Employees are corporate stakeholders. A stakeholder is any person or organization that is invested in the economic well-being of the firm.

42. A – Interest expense. Interest expense relates to what is paid to creditors for borrowing money.

43. C – Cost of goods sold. Cost of goods sold is what is paid to suppliers when a firm purchases inventory.

44. A – Operating section. Any item found on the income statement is an operating cash flow.

45. A – The effects of supply and demand

46. B – Corporate earnings

47. B – Managing a firm's short-term financial position. Make sure to associate working capital management with <u>short-term</u> financial management.

48. B – Cash from investing activities. Cash used to buy or sell <u>long-term assets</u> is always an investing activity.

49. C – A high stock price. A high stock price makes a company very expensive to take over.

50. A – CEOs and CFOs must sign off on financial statements. This makes the CEO and CFO personally liable if the company misrepresents its financial position.

51. A – Increased government intervention. The government has stepped up regulation on financial institutions.

52. D – Deciding the appropriate mix of long-term debt and equity that should be used to finance the company's operations. Capital structure decisions are <u>long-term</u> decisions that relate to the mix of debt and equity capital a firm uses.

53. B – Management needs to be accountable to their shareholders.

54. C – Management should have an equity stake in the company.

55. D – Inflation. Transaction costs, taxes, and inflation all hurt an investment's profits.

56. B – A dollar held currently is worth more than a dollar at some point in the future. This is because a dollar held today can be invested and earn interest.

57. A – Treasury bills

58. E – Small-cap stocks. Small-cap stocks mean stocks of small companies. Small-cap stocks are the riskiest asset class listed. Greater risk means there is a higher expected return.

59. C – Liquidity ratios because they measure a company's ability to current bills and operating costs.

60. C – Current ratio. The current ratio is a liquidity ratio that measures a company's ability to meet <u>short-term</u> debt obligations.

61. B – Inventory. Inventory is considered the least liquid current asset, so it is not included in the quick ratio.

62. E – Late 2000s. This is referring to the housing market crash.

63. E – The board of directors represents the interests of the shareholders.

64. D – Proceeds from issuing equity. Financing activities also relate to cash received or paid in relation to <u>principle</u> on loans (not interest) and cash received or paid out to owners.

65. C – A typical company has positive cash flows from investing activities. This statement is false because the net cash flow from investing activities is usually negative. Companies usually buy more long-term assets than they sell.

66. B – \$8mm. This type of problem can seem confusing at first, but it is fairly easy to solve once you know the trick. It is important to note that this problem only wants to know the cash flows from <u>operations</u>. All cash flows on the income statement are operating cash flows. However, depreciation is a noncash expense, so you need to add the depreciation expense to net income to find the cash flows from operations.

    Cash flows from operations = Net income + Depreciation
    Cash flows from operations = \$3 mil + \$5 mil = \$8 mil

67. D – 7

    Times interest earned = EBIT / Interest expense
    Times interest earned = \$700,000 / \$100,000 = 7

68. A – CCC Bank. CCC Bank has the highest liquidity ratios and the lowest debt-to-equity ratio.

69. C – Chris's Tutoring is raising more funds through debt, so it can expect a higher upside than Josh's Online Tutoring. Since Chris's tutoring has a higher debt-to-equity ratio, it has more potential to earn high returns. However, the additional debt held by Chris's tutoring also means that Chris's tutoring has more risk and has a greater chance of bankruptcy if the company is not able to make its interest payments.

70. A – 0.2

    Total asset turnover = Sales / Total assets
    Total asset turnover = \$10mm / \$50mm = 0.2

71. A – PP&E / Total assets

    All items on a common-size balance sheet are computed as a percent of total assets. All items on a common-size income statement are computed as a percent of net sales.

    Percent of total assets = Balance sheet item / Total assets
    Percent of net sales = Income statement item / Net sales

72. E – Debt/Equity = 0.9

Profit margin = Net income / Sales
Profit margin = \$80,000 / \$200,000 = 0.40 = 40%

Current ratio = Current assets / Current liabilities
Current ratio = \$100,000 / \$50,000 = 2.0

Quick ratio = (Current assets – Inventory) / Current liabilities
Quick ratio = (\$100,000 - \$20,000) / \$50,000 = 1.6

Current assets + Fixed assets = Current liabilities + Long-term debt + Shareholders' equity
\$100,000 + \$200,000 = \$50,000 + \$100,000 + Shareholders' equity
Shareholders' equity = \$150,000

*Note that you don't include the value of inventory in the equation above because inventory is part of current assets.

Debt-to-equity ratio = Long-term debt / Equity
Debt-to-equity ratio = \$100,000 / \$150,000 = 0.67

73. A – It is easiest for corporations to raise large amounts of capital.

74. C – It is common for Japanese companies in Keiretsu to have cross-holdings of common stock.

75. C – The statement of cash flows

76. D – Profitability ratios

77. B – Company X uses debt more sparingly than Y or Z.

    Company X has the lowest debt-to-equity ratio.

    Company X manages its inventories most efficiently because it has the highest inventory turnover ratio.

    Company Z is best at generating income from its assets because it has the highest return on assets (ROA).

    Company Z is the most profitable because it has the highest profit margin.

    Company Y collects payments slower than X and Z because it has the highest days sales outstanding (DSO).

78. C – Company Z provides its investors with the highest return.

    Company Z has the highest profit margin.

    Company Z is the most leveraged because it has the highest debt-to-equity ratio.

    Company Z provides inventors with the highest returns because it has the highest return on equity (ROE).

    Company Z has the most growth potential because it has the highest price-to-earnings (P/E) ratio.

    Company X is the most liquid because it has the highest current ratio.

79. A – All stakeholders. Gregory Peck cares about the impact of selling the company for all stakeholders. He stresses that selling the company will ruin the town where the company is located.

80. B – The stockholders. Danny DeVito only cares about making money for the stockholders of the company.

81. B – CEOs. This is because it is now more common for other companies to acquire companies that are struggling. Because the CEO is the person making the call with the acquisition, he is considered the new Danny DeVito.

82. E – Both A and C. Answer A allows you to hold onto cash longer. Answer C allows to receive cash sooner.

83. B – It was repealed in the 1990s to decrease the amount of influence the government had on the financial markets.
84. A – The creation of a consumer protection agency that ensures that consumers are protected.

85. D – Compensation for Wall Street bankers is at an all-time low due to their role in the financial crisis.

86. C – 50

    CCC = DSI – DPO + DSO = 45 – 15 + 20 = 50

87. C – Invest when the cost of capital is less than the return on investment.

88. C – Stocks have <u>limited</u> liability because the most you can lose is the amount of your initial investment.

89. E – All of the above

90. A – When the tax shield benefits equal the risk of financial distress.

91. B – $2,000

    Tax shield = Debt * Interest rate * Tax rate = $100,000 * 0.05 * 0.4 = $2,000

92. D – Software designer because companies like Google have large cash deposits but do not finance with debt because they are extremely cash flow positive.

93. A – 8.84%

    Total market value of debit and equity = Market value of debt + Market value of equity
    Total market value of debit and equity = $1 mil + $4 mil = $5 mil

    Weight of debt = Market value of debt / Total market value of debt and equity
    Weight of debt = $1 mil / $5 mil = 0.2

    Weight of equity = Market value of equity / Total market value of debt and equity
    Weight of equity = $4 mil / $5 mil = 0.8

    WACC = (Weight of debt)(Cost of debt)(1 – Tax rate) + (Weight of equity)(Cost of equity)
    WACC = (0.2)(7%)(1 – 0.40) + (0.8)(10%) = 8.84%

94. E – Both B and D

95. C – When calculating the cost of debt, a company needs to adjust for taxes, because interest payments are tax deductible. This is why we multiply by one minus the tax rate when calculating WACC.

96. E – 128 days

Inventory turnover = COGS / Avg Inventory
Inventory turnover = $800,000 / $200,000
Inventory turnover = 4

DSI = 365 / Inventory turnover
DSI = 365 / 4
DSI = 91.25

Receivables turnover = Sales / Avg account receivable
Receivables turnover = $1,600,000 / $160,000
Receivables turnover = 10

DSO = 365 / Receivables turnover
DSO = 365 / 10
DSO = 36.5

Operating cycle = DSI + DSO
Operating cycle = 91.25 + 36.5
Operating cycle = 127.75

97. D – 55 days

Payables turnover = COGS / Accounts payable
Payables turnover = $800,000 / $160,000
Payables turnover = 5

DPO = 365 / Payables turnover
DPO = 365 / 5
DPO = 73

CCC = DSI + DSO – DPO
CCC = 91.25 + 36.5 – 73
CCC = 54.75

98. A – Dunder Mifflin has a longer operating cycle but a shorter cash conversion cycle.

Dunder Mifflin

DSI = 20
DSO = 60
DPO = 70

Operating cycle = Days sales in inventory (DSI) + Days sales outstanding (DSO)
Operating cycle = 20 + 60
Operating Cycle = 80

CCC = Days sales in inventory (DSI) + Days sales outstanding (DSO) – Days payables outstanding (DPO)
CCC = 20 + 60 – 70
CCC = 10

Kwik-E-Mart

DSI = 40
DSO = 15
DPO = 30

Operating cycle = Days sales in inventory (DSI) + Days sales outstanding (DSO)
Operating cycle = 40 + 15
Operating Cycle = 55

CCC = Days sales in inventory (DSI) + Days sales outstanding (DSO) – Days payables outstanding (DPO)
CCC = 40 + 15 – 30
CCC = 25

99. E – All of the above. We can see from the calculations above that Dunder Mifflin has the longer operating cycle and Kwik-E-Mart has the longer cash conversion cycle. We know that both companies must pay suppliers before they receive payment from customers because they both have positive cash conversion cycles.

100. E – 7.9%

Total market value of debit and equity = Market value of debt + Market value of equity
Total market value of debit and equity = \$20,000

Weight of debt = Market value of debt / Total market value of debt and equity
Weight of debt = \$6,000 / \$20,000 = 0.3

Weight of equity = Market value of equity / Total market value of debt and equity
Weight of equity = \$14,000 / \$20,000 = 0.7

WACC = (Weight of debt)(Cost of debt)(1 – Tax rate) + (Weight of equity)(Cost of equity)
WACC = (0.30)(5%)(1 – 0.40) + (0.70)(10%) = 7.9%

101. B – Lowering the interest rate on debt is the same thing as decreasing the cost of debt, which will reduce the company's WACC.

102. B – Recording revenue too soon. The company should only record revenue once the services have been provided.

103. B – Capital budgeting decisions relate to investment in long-term assets. A new distribution center is an example of a long-term asset.

104. A – Capital structure decisions relate to how a company uses long-term debt and equity to finance projects. Bonds are an example of long-term debt.

105. E – When inventory increases from one period to the next, it means we purchased more inventory than we sold during the period. Therefore, an increase in inventory is a use of cash.

106. D – 67%

Growth rate = (New – Old) / Old
Growth rate = (\$5 billion – \$3 billion) / \$3 billion
Growth rate = 0.67 = 67%

107. B – 5.8

P/E ratio = Stock price / EPS
P/E ratio = \$42 / \$7.20
P/E ratio = 5.8

108. B – \$18 million. Stock splits do not impact a company's market cap. When the number of shares outstanding are increased, the stock price decreases proportionally. Before the stock split the market cap was \$18 million (\$90 x 200,000 shares = \$18 million). After the stock split, the company's shares outstanding increased to 600,000 (200,000 x 3 = 600,000) and the stock price fell to \$30 (\$90 / 3 = \$30). So the market caps remains \$18 million (\$30 x 600,000 shares = \$18 million).

109. A – 5%

    Dividend yield = Dividend / Stock price
    Dividend yield = \$1 / \$20
    Dividend yield = 0.05 = 5%

110. C – 50%

    Dividend payout ratio = Dividend / Earnings per share
    Dividend payout ratio = \$1 / \$2
    Dividend payout ratio = 0.5 = 50%

111. D – The stock price will increase because of the positive NPV associated with investments. Firms only invest in projects that they expect will be profitable. When a firm announcements a new project or investment, it means the firm expects that it will be generating additional profit from the investment.

112. A – Boosting income with a one-time gain.

113. A – Amazon pays its bills in 32 days.

    Days payable outstanding tells us <u>how long</u> it takes a company to pay its bills on average.

    Accounts payable turnover tells us <u>how many times</u> a company pays its bills within a year.

    Total asset turnover tells us how many dollars of <u>sales</u> a firm generates for each dollar of assets.

    Times interest earned tell us how <u>many dollars of income</u> are earned relative to the company's interest expense.

    Debt to equity compares the amount of debt a company has relative to shareholders' equity. The company has <u>more debt than equity</u> when the debt to equity ratio is greater than 1.

114. E – Dealer 5: 25-26. When you are selling stock, you want to look at the dealer's bid price (the first number). You want to sell to the dealer with the *highest* bid price.

115. B – Dealer 2: 64-66. When you are buying stock, you want to look at the dealer's ask price (the second number). You want to buy from the dealer with the *lowest* ask price.

116. B – DJIA

117. D – A limit buy order

118. B – Spinoffs are usually a free transaction to shareholders. A spinoff is a divestiture of a business division through the distribution of common stock of the subsidiary to the shareholders of the parent company in the form of a stock dividend. Spinoffs are usually a tax-free transaction to the shareholders.

119. B – Equity carve-outs issue an IPO to raise additional capital. An equity carve-out occurs when a parent company sells equity in the form of an IPO in a subsidiary of the company. The parent company usually retains at least 80% ownership in the subsidiary to qualify for tax consolidation. Either the parent or the subsidiary can offer the shares for the IPO.

120. D – To transfer money between investors. Transferring money directly between investors is not a role of financial markets.

121. D – A savings account. Primary securities include newly issued stocks, bonds, and mortgages. Secondary securities include savings accounts, checking accounts, annuities, insurance policies, pension plans, and mutual funds.

122. E – Hedge funds use advanced investment strategies and have the benefit of lax regulation.

123. D – An advertisement placed about an upcoming IPO.

124. D – VC firms see around 90% of their investments go bust.

125. E – Bank financing because it asks about the first <u>outside</u> source of capital. The first source of capital is owner's capital; however, this is not an <u>outside</u> source.

126. C – 3%

After-tax rate of return = r * (1 – Tax rate)
After-tax rate of return = 5% (1 – 0.40) = 3%

127. B – Hostile takeover. In a hostile takeover, the management of the target company opposes the takeover, so the acquiring firm must deal directly with the target firm's shareholders.

128. B – VC firms make money only on about 10% of their investments. VC firms invest in high-risk, early stage companies. VC firms make money only on about 10% of their investments, but they are usually able to earn large enough returns on their profitable investments to compensate for the money they lose on their other investments.

129. B – Early stage venture capitalists can expect a higher return than later stage venture capitalists in an IPO. Early stage VC firms take more risk than later stage VC firms, so the early stage VC firms earn a higher rate of return to compensate for the additional risk.

130. D – Investors almost always lose money on the first day of IPO trading is a false statement. The typical first-day return of an IPO is 15%. However, average investors (normal people) do not get these huge first day returns because average investors will only be able to buy shares in an IPO if institutional investors do not expect the IPO to perform well.

131. D – Property rights are unprotected.

132. C – An option for the underwriter to sell an additional 15% of the offering at the offer price.

133. C – Insurance companies primarily invest in the bond market. Depository intermediaries, such as commercial banks, make money by borrowing at low interest rates and lending at a higher interest rate. Investment companies, such as mutual funds, have greater assets under management (AUM) than investment banks. Investment banks are considered "sell side" financial institutions.

134. C – Foreign exchange, which is also referred to as the currency market.

135. D – The 2-20 fee structure is the primary reason for the growth of hedge funds because the 2-20 fee structure makes running a hedge an extremely lucrative opportunity.

136. E – Both C and D

137. E – You are buying stock so you look at the ask price, which is the second number listed. You want to buy at the lowest ask price.

138. C – Commercial banks because net interest margin (NIM) is a performance metric that looks at how successful a bank's investment decisions are compared to its debt structure.

139. C – Hedge funds are intermediaries between investors and the markets. Hedge funds are classified as "buy side" financial institutions.

     Mutual funds typically charge a 1% fee for their assets under management (AUM).

     Commercial banks take deposits and make loans at higher interest rates.

     The primary source of income for insurance companies are premiums and interest income.

140. E – All of the above

141. E – Both A and C

142. E – Both C and D

143. E – The preliminary financial prospectus provided to the SEC before the IPO.

144. D – The bond market is larger than the stock market.

Largest Financial Markets (Know the order largest to smallest!)

1. Foreign exchange (currency) = $300T
2. Bond markets = $100T
3. Stock markets = $60T
4. Commodities markets = $53T

145. C – The primary way mutual funds fund their assets is by selling shares. Investors buy shares in the mutual fund. Then mutual funds use the money from selling shares to invest in the mutual fund's assets.

146. B – Mutual funds because mutual funds receive a set percentage of assets under management. This means that the funds need to bring more assets under management to increase revenue.

147. D – You are selling stock so you need to look at the bid price, which is the first number listed. You want to sell your stock for the highest possible price.

148. C – On the first day of an IPO, average investors will lose money. This is because average investors will only be able to buy shares in an IPO if the large institutional investors don't want the shares because the IPO is not a good investment. When an IPO is a good investment, the average investor won't be able to purchase shares because the shares will all go to the large institutional investors.

149. E – Deposits; Loans

150. B – The type of information covered by insider trading laws is well defined

151. B – Reserves; Bonds

152. B – Hedge funds are largely illiquid. Hedge funds often take large positions in investments. This makes it difficult for hedge funds to move in and out of investments quickly.

153. B – Shares; Securities. Investment companies sell shares. They then use the revenue generated from selling shares to purchase securities.

154. True – All balance sheet accounts are divided by total assets in a common-size balance sheet. Total assets divided by total assets will always be 100%.

155. False – Currency (foreign exchange) markets are the largest markets in the world.

156. False – A company's revenue for the period is found on the income statement.

157. True

158. False – The dividend yield compares the company's dividend to the company's stock price.

159. True
160. True – Grocery stores sell through their inventory more frequently than utility companies.
161. True – Increasing accounts receivable turnover from 3.0 to 5.0 means the company is collecting cash from credit sales faster, which results in an increase of cash.
162. False – The price of gold increases in times of uncertainty, particularly during financial crises.
163. False – Gross profit is the difference between <u>revenue</u> and cost of goods sold.
164. False – The 30-year treasury yield is not a measure of inflation.
165. False – Issuing dividends will result in a cash outflow because dividends are paid to shareholders.
166. False – Companies pay fewer dividends after a stock repurchase because they do not have to pay dividends on the repurchased shares.
167. True
168. False – The NASDAQ includes the world's best-known technology and biotech firms.
169. False – Paying dividends is a cash flow from financing activities.
170. True
171. True
172. False – Working capital decisions relate to the company's current assets and liabilities.
173. True
174. True – Accounts payable turnover measures how many times a company pays its bills within a year. Increasing the accounts payable turnover from 6.0 to 8.0 means the company is paying its bills more frequently, which will cause cash to decrease.
175. True
176. False – Stock buybacks do not impact the amount a company pays in taxes.
177. False – Retained earnings is a shareholders' equity account.