BUSINESS-ENVIRONMENT-AND-CONCEPTS Q&As

Certified Public Accountant (Business Environment & Concept)

Pass Test Prep BUSINESS-ENVIRONMENT-AND-CONCEPTS Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

https://www.pass4itsure.com/business-environment-and-concepts.html

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by Test Prep Official Exam Center

- Instant Download After Purchase
- 100% Money Back Guarantee
- 365 Days Free Update
- 800,000+ Satisfied Customers

SATISFACTION GUARANTEED 100% SATISFACTION GUARANTEED

QUESTION 1

When a firm finances each asset with a financial instrument of the same approximate maturity as the life of the asset, it is applying:

A. Working capital management.

B. Return maximization.

C. Financial leverage.

D. Operating leverage.

Correct Answer: A

Choice "a" is correct. Appropriate working capital management matches the maturity life of each asset with the length of the financial instrument used to finance that asset. Choice "b" is incorrect. Return maximization seeks to obtain the optimal return rate by asset utilization. It is not necessarily related to the maturity of the asset. Choice "c" is incorrect. Financial leverage is the amount of debt used to finance an asset. Higher leverage equals more debt. It is unrelated to the maturity life of an asset. Choice "d" is incorrect. Operating leverage is the degree that fixed costs are used in the production process. Operating leverage is unrelated to the methods used to finance assets.

QUESTION 2

Which of the following is not a type of major strategic framework that has proven useful for value chain analysis?

A. Core competencies analysis.

B. Customer preference analysis.

C. Industry structure analysis.

D. Segmentation analysis.

Correct Answer: B

Choice "b" is correct. Customer preference analysis is not a major strategic framework that has been proven to be useful for value chain analysis. Choices "a", "c", and "d" are incorrect, as the three major types of strategic frameworks that have been proven to be useful for value chain analysis are industry structure analysis, core competencies analysis, and segmentation analysis.

QUESTION 3

Williams, Inc. is interested in measuring its overall cost of capital and has gathered the following data. Under the terms described below, the company can sell unlimited amounts of all instruments.

•

Williams can raise cash by selling $1,000, 8 percent, 20-year bonds with annual interest payments. In

selling the issue, an average premium of $30 per bond would be received, and the firm must pay floatation costs of $30 per bond. The after-tax cost of funds is estimated to be 4.8 percent.

•

Williams can sell 8 percent preferred stock at par value, $105 per share. The cost of issuing and selling

the preferred stock is expected to be $5 per share.

•

Williams' common stock is currently selling for $100 per share. The firm expects to pay cash dividends of

$7 per share next year, and the dividends are expected to remain constant. The stock will have to be

underpriced by $3 per share, and floatation costs are expected to amount to $5 per share.

•

Williams expects to have available $100,000 of retained earnings in the coming year; once these retained

earnings are exhausted, the firm will use new common stock as the form of common stock equity

financing.

•

Williams' preferred capital structure is:

Long-term debt 30%

Preferred stock 20

Common stock 50

If Williams, Inc. needs a total of $1,000,000, the firm\\'s weighted-average cost of capital would be:

A. 6.8 percent.

B. 4.8 percent.

C. 6.5 percent.

D. 9.1 percent.

Correct Answer: A

Choice "a" is correct. 6.8%. This question pertains to the manner in which changes in the required amount of capital will impact the weighted average cost of capital governed by the target capital structure. The rates are given, and you must derive the weights. The company needs a total of $1,000,000. The total Retained Earnings is $100,000, which will only represent 10% of the total amount needed. In J92-1.01, we computed the cost of new common share issues at 7.6%, and we know that we can issue unlimited amounts of each security. Based on these assumptions, we know that the target capital structure will remain unchanged but that the components of common equity will be priced differently because Retained Earnings only equals $100/$1,000 (or 10%). If the target capital structure calls for 50% common stock and only 10% is available from retained earnings, then 40% must come from the issuance of new common shares. The weighted average is computed as follows: Choices "b", "c", and "d" are incorrect, per the above calculation.

Type of financing	Cost		Target Structure		Extension
Long-term debt	4.8%	×	30%	=	1.44%
Preferred shares	8.4%	×	20%	=	1.68%
Common equity (retained earnings)	7.0%	×	10%	=	0.70%
New common shares	7.6%	×	40%	=	3.04%
Total			100%		6.78%

QUESTION 4

The Moore Corporation is considering the acquisition of a new machine. The machine can be purchased for $90,000; it will cost $6,000 to transport to Moore\\'s plant and $9,000 to install. It is estimated that the machine will last 10 years, and it is expected to have an estimated salvage value of $5,000. Over its 10year life, the machine is expected to produce 2,000 units per year with a selling price of $500 and combined material and labor costs of $450 per unit. Federal tax regulations permit machines of this type to be depreciated using the straight-line method over 5 years with no estimated salvage value. Moore has a marginal tax rate of 40 percent.

What is the net cash flow for the third year that Moore Corporation should use in a capital budgeting analysis?

A. $68,400

B. $64,200

C. $53,700

D. $47,400

Correct Answer: A

Choice "a" is correct. $68,400 net cash flow for the third year.

$$\frac{\$90{,}000+6{,}000+9{,}000}{5\text{ years}}=\frac{\$105{,}000\text{ tax}}{5\text{ years}}=\$21{,}000\text{ tax DEPRN}$$

In year 3:	Unit Qty	Unit Value		Tax Calc	Cash Flow
Cash inflow from sales	(2,000 × $500)		=	$1,000,000	1,000,000
Cash outflow For mat'l & labor	(2,000 × $450)		=	(900,000)	(900,000)
Cash inflow from operations in year 3				100,000	100,000
Less tax Depreciation expense				(21,000)	
Taxable income				79,000	
Marginal tax rate				× 40%	
Tax to be paid				31,600	31,600
Net cash flow in year 3 after taxes					$ 68,400

Alternate Computation:

In year 3, Moore will generate a $100,000 profit from the incremental sales (2000 units ?($500 - $450)). This profit will be taxed at 40%, so the net after-tax increase in cash flow is $60,000 BEFORE the depreciation tax shield is considered. Depreciation is not a cash outflow, but it will reduce the amount of tax the company has to pay (by 40% of the depreciation), and this has an effect on the cash-flow for the company. Depreciation, as calculated above, is $21,000 per year ($105,000 cost of the machine divided by 5 years). The depreciation tax shield is $8,400 ($21,000 ?40%), so the total after-tax cash flows in year 3 for the new machine is $60,000 + $8,400 = $68,400.

QUESTION 5

If Brewer Corporation\\'s bonds are currently yielding 8 percent in the marketplace, why would the firm\\'s cost of debt be lower?

A. Market interest rates have increased.

B. Additional debt can be issued more cheaply that the original debt.

C. Interest is deductible for tax purposes.

D. There is a mixture of old and new debt.

Correct Answer: C

Choice "c" is correct. Because interest expense is a tax deduction, the cost to Brewer is lower than the market yield rate on debt. Choice "a" is incorrect. If market interest rates increase, then Brewer\\'s bonds would have to be offered at a discount to stay competitive with the market. This discount would increase (not lower) Brewer\\'s cost of debt. Choice "b" is incorrect. Issuance of cheaper additional debt will lower future cost of debt, but have no impact on current cost of debt. Choice "d" is incorrect. Presumably, the 8% yield already includes new and old debt.

BUSINESS-ENVIRONMENT-AND-CONCEPTS PDF Dumps | BUSINESS-ENVIRONMENT-AND-CONCEPTS Exam Questions | BUSINESS-ENVIRONMENT-AND-CONCEPTS Braindumps