

Multiple Choice Test Item Bank

Short-Term Financial Management: Text, and Cases Terry S. Maness and John T. Zietlow Chapter 2

Chapter 2:

1. The extent to which a company's assets exceed its liabilities is properly referred to as:
 - a. liquidity
 - b. solvency *
 - c. financial flexibility
 - d. the net liquid balance

Ref: page 25

2. The ability of a company to augment its future cash flows, cover unforeseen cash needs, or take advantage of unforeseen opportunities, is referred to as:
 - a. liquidity
 - b. solvency
 - c. financial flexibility *
 - d. the net liquidity balance

Ref: pages 25, 41, 42 and 45

3. A survey of the Fortune 1000 companies found that _____ is (are) valuable for the monitoring, management, and control of liquidity.
 - I ratio analysis
 - II receivables monitoring
 - III inventory monitoring
 - IV cash flow projections
 - V strong relations with banks
 - a. I, II, III, IV
 - b. I, II, III, V
 - c. II, III, IV
 - d. II, III, IV
 - e. II, III, IV, V *

Ref: page 32

4. The current ratio and the quick ratio are best characterized as _____ ratios.
 - a. Liquidity
 - b. Solvency *

- c. financial flexibility
- d. net liquid balance

Ref: pages 25 and 28

5. The degree to which current liabilities are covered in the event of liquidation is best captured by the _____.
- a. current ratio *
 - b. net liquid balance
 - c. working capital requirement / sales ratio
 - d. current liquidity index
 - e. cash conversion period

Ref: page 25

6. An increase in days sales outstanding (DSO), all other things equal, would _____ the cash conversion period and reflect _____ liquidity.
- a. increase, increased
 - b. increase, decreased *
 - c. decrease, increased
 - d. decrease, decreased

Ref: page 38

7. An increase in days inventory held, all other things equal, would _____ the cash conversion period and reflect _____ liquidity.
- a. increase, increased
 - b. increase, decreased *
 - c. decrease, increased
 - d. decrease, decreased

Ref: page 38

8. An increase in days payable outstanding, all other things equal, would _____ the cash conversion period and reflect _____ liquidity.
- a. increase, increased
 - b. increase, decreased
 - c. decrease, increased *
 - d. decrease, decreased

Ref: page 38

9. Days inventory held is a measure of the
- a. average time elapsing from the time an order is placed until it is shipped
 - b. average inventory level multiplied by the number of days in the period
 - c. average length of time an inventoried item is in stock before it is sold *
 - d. none of the above

Ref: page 37

10. For a company with only finished goods inventories, purchases can be estimated with the formula
- a. $(\text{Beginning Inventory} - \text{Ending Inventory}) - \text{Cost of Goods Sold}$
 - b. $(\text{Beginning Inventory} - \text{Ending Inventory}) + \text{Cost of Goods Sold}$
 - c. $(\text{Ending Inventory} - \text{Beginning Inventory}) - \text{Cost of Goods Sold}$
 - d. $(\text{Ending Inventory} - \text{Beginning Inventory}) + \text{Cost of Goods Sold} *$

Ref: page 12

11. In the statement of cash flows, an increase in payments of interest to lenders would represent an additional
- a. cash outflow in the operating activities section *
 - b. cash outflow in the investing activities section
 - c. cash outflow in the financing activities section
 - d. cash outflow handled in a footnote to the statement

Ref: page 34

12. A company such as W.T. Grant which perennially experiences deficit cash flow from operating activities must delay investment projects and generally
- a. increases its dividends to keep stockholders satisfied
 - b. increases its wages and salaries to retain employs
 - c. decreases its depreciation expense to conserve much-needed cash
 - d. increases its use of external funds *

Ref: pages 33 and 34

13. A net increase in cash and equivalents from the 2002 statement of cash flows is equivalent to
- a. the cash generated by operations for 2002
 - b. the change in cash and equivalents from 2001 to 2002 balance sheets *
 - c. the change in retained earnings balances from 2001 to 2002 balance sheets
 - d. the net cash provided in 2002 by external funds

Ref: pages 26 and 33

14. A given period's net cash from operations differs from that period's net income due to
- a. the depreciation expense, depletion, and amortization for the period
 - b. the change in accounts receivable over the period
 - c. the change in gross fixed assets over the period
 - d. a and b *
 - e. a, b, and c

Ref: page 34

15. All other factors constant, the greater the working capital requirement to sales ratio (WCR / S), the _____ the reliance on _____ funds given a change in sales.
- a. greater, external debt and equity *
 - b. lesser, external debt and equity
 - c. greater, spontaneous
 - d. lesser, bank-provided

Ref: page 31

16. A negative value for the net liquid balance indicates reduced financial flexibility and
- a. an increased dependence on outside financing *
 - b. an increased sustainable growth rate
 - c. that cash and equivalents are growing relative to the company's use of short-term financing
 - d. that bank borrowing is growing relative to other arranged short-term financing

Ref: page 30

17. The basic ingredients of liquidity are:
- a. Amount
 - b. time
 - c. cost
 - d. 'a' and 'c'
 - e. 'a' 'b' and 'c' *

Ref: page 31

18. Lambda is developed from a function of the likelihood that a firm will exhaust its
- a. Its cash resources
 - b. Its resources in total assets
 - c. Its liquid resources *
 - d. Its resources in fixed assets

Ref: page 40

19. Sustainable growth rate is the sales growth rate that
- a. requires new outside debt
 - b. can be supported by the firm's current/ target financial policies
 - c. requires new external equity
 - d. can be achieved by the firm's marketing department

Ref: page 42