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QUESTION 1

The high cost of short--term financing has recently caused a company to reevaluate the terms of credit it extends to its customers. The current policy is 11101 net 60. If customers can borrow at the prime rate, at what prime rate must the company change its terms of credit in order to avoid an undesirable extension in its collection of receivables?

A. 2%

B. 5%

C. 7%

D. 8%

Correct Answer: D

QUESTION 2

Life-cycle costing

A. Is sometimes used as a basis for cost planning and product pricing.

B. Includes only manufacturing costs incurred over the life of the product.

C. Includes only manufacturing cost, selling expense, and distribution expense.

D. Emphasizes cost savings opportunities during the manufacturing cycle.

Correct Answer: A

Life-cycle costing estimates a product\\'s revenues and expenses over its expected life cycle. This approach is especially useful when revenues and related costs do not occur in the same periods. It emphasizes the need to price products to cover all costs, not just those for production. Hence, costs are determined for all value chain categories: upstream (RandD, design), manufacturing, and downstream (marketing, distribution, and customer service). The result is to highlight upstream and downstream costs in the cost planning process that often receive insufficient attention.

QUESTION 3

Acme Corporation is selling $25 million of cumulative, non-participating preferred stock. The issue will have a par value of $65 per share with a dividend rate of 6%.The issue will be sold to investors for $68 per share, and issuance costs will be $4 per share The cost of preferred stock to Acme is

A. 5.42%.

B. 5.74%.

C. 6.00%.

D. 6.09%.

Correct Answer: D

The company will receive the use of on $64 per share. The annual dividend requirement is 6% of $65, or $390 per share. Dividing the $3.90 by the $64 received results in a financing cost of 6.09%.

QUESTION 4

Quality control of services should be managed by

A. Separating the performance of services from their consumptions

B. Emphasizing customer attraction rather than satisfaction

C. Standardizing the firm\\'s services

D. Adopting selective hiring practices and allowing those employees to use judgment in performing services

Correct Answer: C

Services vary greatly in quality. Accordingly, quality control must be managed effectively by selective hiring, strong training programs, standardizing the firm\\'s services, and researching customer satisfaction

QUESTION 5

If Williams, Inc. needs a total of $200,000. the firm\\'s weighted-average cost of capital would be

A. 19.8%

B. 4.8%

C. 6.5%

D. 6.8%

Correct Answer: C

Williams\\' preferred capital structure is 50% common stock. However, $ 100.000 of retained earnings (50% of the required $200,000 of capital) will be used before any common stock is issued. Thus, the weighted-average cost of capital will be determined based on the respective costs of the bonds, preferred stock. and retained earnings. The cost of the bonds is given as 4.8%, the cost of the preferred stock is 8%, and the cost of the retained earnings is 7% ($7 dividend -- $100 market price of the common stock). These three costs are then weighted by the preferred capital structure ratios: 30%x4.8% 1.44% 20% x 8.0% 1.60% 50% x 7.0% 3.50% Total 6.54% Rounding to the nearest tenth produces the correct answer of 6.5%. Williams, Inc. is interested in measuring its overall cost of capital and has gathered the following data. Under the terms described as follows, the company can sell unlimited amounts of all instruments. Williams can raise cash by selling $1,000, 8%. 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 flotation costs of $30 per bond. The after-tax cost of funds is estimated to be 4.8%. Williams can sell $8 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 under priced by $3 per share, and flotation 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%

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