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## **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. liquidityb. solvency \*c. financial flexibilityd. 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. solvencyc. 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

- 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

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. (Beginning Inventory Ending Inventory) Cost of Goods Sold
  b. (Beginning Inventory Ending Inventory) + Cost of Goods Sold
  c. (Ending Inventory Beginning Inventory) Cost of Goods Sold
  - d. (Ending Inventory Beginning Inventory) + 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

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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