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QUESTION 1

The contents of the section of the annual report entitled "Management\\'s Discussion and Analysis" (MDandA) are

A. mandated by regulations of the SEC.

B. mandated by pronouncements of the Financial Accounting Standards Board (FASB).

C. reviewed by independent auditors.

D. mandated by regulations of the Internal Revenue Service.

E. none of these answers.

Correct Answer: A

The contents of the MDandA section are mandated by the SEC and not FASB.

QUESTION 2

A distribution has a mean equal to 12 and a standard deviation of 36. It has a coefficient of variation equal to:

A. zero

B. none of these answers

C. 0.335

D. 3.00

Correct Answer: D

The coefficient of variation equals the standard deviation divided by mean.

QUESTION 3

Discrepancies between the changes in accounts reported on the balance sheet and those reported in the cash flow statement are due to

A. investment in majority interests.

B. foreign exchange translations.

C. unfunded pension liabilities.

D. prior period adjustments and accounting rule changes.

E. acquisitions and divestitures, and foreign subsidiaries.

Correct Answer: E

Acquisitions, divestitures, and continuing corporate reorganizations can distort trends in both cash flows from operations and investing cash flows.

QUESTION 4

At which stage in an industry life cycle would growth most likely be able to be estimated most accurately?

A. pioneering development

B. mature growth

C. deceleration of growth and decline

D. rapid accelerating growth

E. stabilization and market maturity

Correct Answer: E

During this stage, the industry growth rate matches the growth rate of the segment of the economy of which the industry is a part. Sales are highly correlated with an economic series.

QUESTION 5

In a recent press release, the management of Intelligent Semiconductor have announced their intention on an engaging a rather liberal debt offering, which will bring the proportion of debt within their capital structure from 35% to 50%. According to the Signaling Theory, his decision should be viewed as which of the following? Choose the best answer.

A. The Signaling Theory would not apply to this announcement.

B. Bullish, because it indicates superior investment prospects for the firm.

C. Bearish, because it is indicative of a shift toward a more liberal capital structure.

D. Bearish, because this will increase the financial risk of the firm.

E. Bullish, because it is indicative of a shift toward a more conservative capital structure.

F. Bearish, because it indicates poor investment prospects for the firm.

Correct Answer: B

According to the Signaling Theory, the management of companies send implicit signals to investors by their capital budgeting decisions. Believers of this theory feel that corporate managers have access to superior information, and are allowed to exploit this information asymmetry through their capital budgeting decisions. According to the signaling theory, when investment prospects are good, companies will prefer to raise capital first by using internally generated funds, i.e. retained earnings and marketable securities investments. If this source of capital is unavailable, then companies will prefer to issue debt rather than common or preferred equity. The reasoning behind this is the fact that by raising debt, the company will not dilute the ROE figure, which is expected to be high due to favorable investment prospects. In contrast, when investment prospects are poor, the Signaling Theory states that companies will prefer to raise funds first by issuing common equity. The reasoning behind this is the fact that by issuing additional equity when investment prospects are poor, companies will be able to "spread the losses" amongst a greater pool of investors, thereby lessening the overall negative effect of the poor investment prospects. In this example, the management of

Intelligent Semiconductor has announced its intention on issuing more debt. According to the Signaling Theory, this should be viewed as an indication that the firm has superior investment prospects. While the decision to issue more debt is indicative of a shift toward a more liberal capital structure, and the issuance of this debt will increase the financial risk of the firm, both of which are somewhat bearish, neither represent the best answer.

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