

國立高雄大學 112 學年度研究所碩士班招生考試試題

科目：財務管理

系所：金融管理學系

是否使用計算機：是

考試時間：100 分鐘

本科原始成績：100 分

A. Multiple Choice Questions (each 2%, total 100%)

1. The preemptive right is important to shareholders because it
- allows managers to buy additional shares below the current market price.
 - will result in higher dividends per share.
 - is included in every corporate charter.
 - protects the current shareholders against a dilution of their ownership interests.
 - protects bondholders, and thus enables the firm to issue debt with a relatively low interest rate.

2. Stocks A and B have the following data. Assuming the stock market is efficient and the stocks are in equilibrium, which of the following statements is CORRECT?

	<u>A</u>	<u>B</u>
Price	\$25	\$40
Expected growth	7%	9%
Expected return	10%	12%

- The two stocks should have the same expected dividend.
 - The two stocks could not be in equilibrium with the numbers given in the question.
 - A's expected dividend is \$0.50.
 - B's expected dividend is \$0.75.
 - A's expected dividend is \$0.75 and B's expected dividend is \$1.20.
3. Stocks A and B have the same price and are in equilibrium, but Stock A has the higher required rate of return. Which of the following statements is CORRECT?
- If Stock A has a lower dividend yield than Stock B, its expected capital gains yield must be higher than Stock B's.
 - Stock B must have a higher dividend yield than Stock A.
 - Stock A must have a higher dividend yield than Stock B.
 - If Stock A has a higher dividend yield than Stock B, its expected capital gains yield must be lower than Stock B's.
 - Stock A must have both a higher dividend yield and a higher capital gains yield than Stock B.

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4. Which of the following statements is CORRECT?
- The constant growth model takes into consideration the capital gains investors expect to earn on a stock.
 - Two firms with the same expected dividend and growth rate must also have the same stock price.
 - It is appropriate to use the constant growth model to estimate a stock's value even if its growth rate is never expected to become constant.
 - If a stock has a required rate of return $r_s = 12\%$, and if its dividend is expected to grow at a constant rate of 5%, this implies that the stock's dividend yield is also 5%.
 - The price of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.
5. Which of the following statements is CORRECT?
- Preferred stockholders have a priority over bondholders in the event of bankruptcy to the income, but not to the proceeds in a liquidation.
 - The preferred stock of a given firm is generally less risky to investors than the same firm's common stock.
 - Corporations cannot buy the preferred stocks of other corporations.
 - Preferred dividends are not generally cumulative.
 - A big advantage of preferred stock is that dividends on preferred stocks are tax deductible by the issuing corporation.
6. Which of the following statements is CORRECT?
- Sinking fund provisions sometimes turn out to adversely affect bondholders, and this is most likely to occur if interest rates decline after the bond was issued.
 - Most sinking funds require the issuer to provide funds to a trustee, who holds the money so that it will be available to pay off bondholders when the bonds mature.
 - A sinking fund provision makes a bond more risky to investors at the time of issuance.
 - Sinking fund provisions never require companies to retire their debt; they only establish "targets" for the company to reduce its debt over time.
 - If interest rates increase after a company has issued bonds with a sinking fund, the company will be less likely to buy bonds on the open market to meet its sinking fund obligation and more likely to call them in at the sinking fund call price.

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7. A 10-year corporate bond has an annual coupon of 9%. The bond is currently selling at par (\$1,000). Which of the following statements is CORRECT?
- The bond's expected capital gains yield is zero.
 - The bond's yield to maturity is above 9%.
 - The bond's current yield is above 9%.
 - If the bond's yield to maturity declines, the bond will sell at a discount.
 - The bond's current yield is less than its expected capital gains yield.
8. Which of the following statements is CORRECT?
- A zero coupon bond's current yield is equal to its yield to maturity.
 - If a bond's yield to maturity exceeds its coupon rate, the bond will sell at par.
 - All else equal, if a bond's yield to maturity increases, its price will fall.
 - If a bond's yield to maturity exceeds its coupon rate, the bond will sell at a premium over par.
 - All else equal, if a bond's yield to maturity increases, its current yield will fall.
9. Which of the following statements is CORRECT?
- One advantage of a zero coupon Treasury bond is that no one who owns the bond has to pay any taxes on it until it matures or is sold.
 - Long-term bonds have less price risk but more reinvestment risk than short-term bonds.
 - If interest rates increase, all bond prices will increase, but the increase will be greater for bonds that have less price risk.
 - Relative to a coupon-bearing bond with the same maturity, a zero coupon bond has more price risk but less reinvestment risk.
 - Long-term bonds have less price risk and also less reinvestment risk than short-term bonds.
10. A 10-year bond with a 9% annual coupon has a yield to maturity of 8%. Which of the following statements is CORRECT?
- If the yield to maturity remains constant, the bond's price one year from now will be higher than its current price.
 - The bond is selling below its par value.
 - The bond is selling at a discount.
 - If the yield to maturity remains constant, the bond's price one year from now will be lower than its current price.

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e. The bond's current yield is greater than 9%.

11. Which of the following statements is CORRECT?

- a. A change in a company's target capital structure cannot affect its WACC.
- b. WACC calculations should be based on the before-tax costs of all the individual capital components.
- c. Flotation costs associated with issuing new common stock normally reduce the WACC.
- d. If a company's tax rate increases, then, all else equal, its weighted average cost of capital will decline.
- e. An increase in the risk-free rate will normally lower the marginal costs of both debt and equity financing.

12. Which of the following statements is CORRECT?

- a. The WACC is calculated using before-tax costs for all components.
- b. The after-tax cost of debt usually exceeds the after-tax cost of equity.
- c. For a given firm, the after-tax cost of debt is always more expensive than the after-tax cost of non-convertible preferred stock.
- d. Retained earnings that were generated in the past and are reported on the firm's balance sheet are available to finance the firm's capital budget during the coming year.
- e. The WACC that should be used in capital budgeting is the firm's marginal, after-tax cost of capital.

13. Which of the following statements is CORRECT?

- a. When calculating the cost of debt, a company needs to adjust for taxes, because interest payments are deductible by the paying corporation.
- b. When calculating the cost of preferred stock, companies must adjust for taxes, because dividends paid on preferred stock are deductible by the paying corporation.
- c. Because of tax effects, an increase in the risk-free rate will have a greater effect on the after-tax cost of debt than on the cost of common stock as measured by the CAPM.
- d. If a company's beta increases, this will increase the cost of equity used to calculate the WACC, but only if the company does not have enough retained earnings to take care of its equity financing and hence must issue new stock.
- e. Higher flotation costs reduce investors' expected returns, and that leads to a reduction in a company's WACC.

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14. Duval Inc. uses only equity capital, and it has two equally-sized divisions. Division A's cost of capital is 10.0%, Division B's cost is 14.0%, and the corporate (composite) WACC is 12.0%. All of Division A's projects are equally risky, as are all of Division B's projects. However, the projects of Division A are less risky than those of Division B. Which of the following projects should the firm accept?
- A Division B project with a 13% return.
 - A Division B project with a 12% return.
 - A Division A project with an 11% return.
 - A Division A project with a 9% return.
 - A Division B project with an 11% return.
15. Which of the following statements is CORRECT?
- Since debt capital can cause a company to go bankrupt but equity capital cannot, debt is riskier than equity, and thus the after-tax cost of debt is always greater than the cost of equity.
 - The tax-adjusted cost of debt is always greater than the interest rate on debt, provided the company does in fact pay taxes.
 - If a company assigns the same cost of capital to all of its projects regardless of each project's risk, then the company is likely to reject some safe projects that it actually should accept and to accept some risky projects that it should reject.
 - Because no flotation costs are required to obtain capital as retained earnings, the cost of retained earnings is generally lower than the after-tax cost of debt.
 - Higher flotation costs tend to reduce the cost of equity capital.
16. Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.
- A project's NPV is generally found by compounding the cash inflows at the WACC to find the terminal value (TV), then discounting the TV at the IRR to find its PV.
 - The higher the WACC used to calculate the NPV, the lower the calculated NPV will be.
 - If a project's NPV is greater than zero, then its IRR must be less than the WACC.
 - If a project's NPV is greater than zero, then its IRR must be less than zero.
 - The NPVs of relatively risky projects should be found using relatively low WACCs.
17. Which of the following statements is CORRECT? Assume that the project being considered has normal cash flows, with one outflow followed by a series of inflows.

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- a. If Project A has a higher IRR than Project B, then Project A must have the lower NPV.
 - b. If Project A has a higher IRR than Project B, then Project A must also have a higher NPV.
 - c. The IRR calculation implicitly assumes that all cash flows are reinvested at the WACC.
 - d. The IRR calculation implicitly assumes that cash flows are withdrawn from the business rather than being reinvested in the business.
 - e. If a project has normal cash flows and its IRR exceeds its WACC, then the project's NPV must be positive.
18. Which of the following statements is CORRECT?
- a. The NPV method was once the favorite of academics and business executives, but today most authorities regard the MIRR as being the best indicator of a project's profitability.
 - b. If the cost of capital declines, this lowers a project's NPV.
 - c. The NPV method is regarded by most academics as being the best indicator of a project's profitability, hence most academics recommend that firms use only this one method and disregard other methods.
 - d. A project's NPV depends on the total amount of cash flows the project produces, but because the cash flows are discounted at the WACC, it does not matter if the cash flows occur early or late in the project's life.
 - e. The NPV and IRR methods may give different recommendations regarding which of two mutually exclusive projects should be accepted, but they always give the same recommendation regarding the acceptability of a normal, independent project.
19. Which of the following statements is CORRECT?
- a. For a project to have more than one IRR, then both IRRs must be greater than the WACC.
 - b. If two projects are mutually exclusive, then they are likely to have multiple IRRs.
 - c. If a project is independent, then it cannot have multiple IRRs.
 - d. Multiple IRRs can only occur if the signs of the cash flows change more than once.
 - e. If a project has two IRRs, then the smaller one is the one that is most relevant, and it should be accepted and relied upon.
20. Which of the following statements is CORRECT?
- a. The NPV method assumes that cash flows will be reinvested at the WACC, while the IRR method assumes reinvestment at the IRR.

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- b. The NPV method assumes that cash flows will be reinvested at the risk-free rate, while the IRR method assumes reinvestment at the IRR.
 - c. The NPV method assumes that cash flows will be reinvested at the WACC, while the IRR method assumes reinvestment at the risk-free rate.
 - d. The NPV method does not consider all relevant cash flows, particularly cash flows beyond the payback period.
 - e. The IRR method does not consider all relevant cash flows, particularly cash flows beyond the payback period.
21. Which of the following statements is CORRECT?
- a. Increasing its use of financial leverage is one way to increase a firm's return on investors' capital (ROIC).
 - b. If a firm lowered its fixed costs but increased its variable costs by just enough to hold total costs at the present level of sales constant, this would increase its operating leverage.
 - c. The debt ratio that maximizes expected EPS generally exceeds the debt ratio that maximizes share price.
 - d. If a company were to issue debt and use the money to repurchase common stock, this would reduce its return on investors' capital (ROIC). (Assume that the repurchase has no impact on the company's operating income.)
 - e. If a change in the bankruptcy code made bankruptcy less costly to corporations, this would tend to reduce corporations' debt ratios.
22. Companies HD and LD have identical tax rates, total assets, total investor-supplied capital, and returns on investors' capital (ROIC), and their ROICs exceed their after-tax costs of debt, $r_d(1 - T)$. However, Company HD has a higher debt ratio and thus more interest expense than Company LD. Which of the following statements is CORRECT?
- a. Company HD has a higher net income than Company LD.
 - b. Company HD has a lower ROA than Company LD.
 - c. Company HD has a lower ROE than Company LD.
 - d. The two companies have the same ROA.
 - e. The two companies have the same ROE.
23. A major contribution of the Miller model is that it demonstrates, other things held constant, that

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- a. personal taxes increase the value of using corporate debt.
 - b. personal taxes lower the value of using corporate debt.
 - c. personal taxes have no effect on the value of using corporate debt.
 - d. financial distress and agency costs reduce the value of using corporate debt.
 - e. debt costs increase with financial leverage.
24. Other things held constant, which of the following events would be most likely to encourage a firm to increase the amount of debt in its capital structure?
- a. Its sales are projected to become less stable in the future.
 - b. The bankruptcy laws are changed in a way that would make bankruptcy more costly to the firm and its stockholders.
 - c. Management believes that the firm's stock is currently overvalued.
 - d. The firm decides to automate its factory with specialized equipment and thus increase its use of operating leverage.
 - e. The corporate tax rate is increased.
25. Which of the following statements is CORRECT?
- a. In general, a firm with low operating leverage also has a small proportion of its total costs in the form of fixed costs.
 - b. There is no reason to think that changes in the personal tax rate would affect firms' capital structure decisions.
 - c. A firm with a relatively high business risk is more likely to increase its use of financial leverage than a firm with low business risk, assuming all else equal.
 - d. If a firm's after-tax cost of equity exceeds its after-tax cost of debt, it can always reduce its WACC by increasing its use of debt.
 - e. Suppose a firm has less than its optimal amount of debt. Increasing its use of debt to the point where it is at its optimal capital structure will decrease the costs of both debt and equity.
26. If a firm adheres strictly to the residual dividend model, the issuance of new common stock would suggest that
- a. the dividend payout ratio has remained constant.
 - b. the dividend payout ratio is increasing.
 - c. no dividends will be paid during the year.
 - d. the dividend payout ratio is decreasing.

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e. the dollar amount of capital investments had decreased.

27. Which of the following would be most likely to lead to a decrease in a firm's dividend payout ratio?

- a. Its earnings become more stable.
- b. Its access to the capital markets increases.
- c. Its research and development efforts pay off, and it now has more high-return investment opportunities.
- d. Its accounts receivable decrease due to a change in its credit policy.
- e. Its stock price has increased over the last year by a greater percentage than the increase in the broad stock market averages.

28. Which of the following statements is CORRECT?

- a. When firms are deciding on the size of stock splits--say whether to declare a 2-for-1 split or a 3-for-1 split, it is best to declare the smaller one, in this case the 2-for-1 split, because then the after-split price will be higher than if the 3-for-1 split had been used.
- b. Back before the SEC was created in the 1930s, companies would declare reverse splits in order to boost their stock prices. However, this was determined to be a deceptive practice, and reverse splits are illegal today.
- c. Stock splits create more administrative problems for investors than stock dividends, especially determining the tax basis of their shares when they decide to sell them, so today stock dividends are used far more often than stock splits.
- d. When a company declares a stock split, the price of the stock typically declines--for example, by about 50% after a 2-for-1 split--and this necessarily reduces the total market value of the firm's equity.
- e. If a firm's stock price is quite high relative to most stocks--say \$500 per share--then it can declare a stock split of say 20-for-1 so as to bring the price down to something close to \$25. Moreover, if the price is relatively low--say \$2 per share--then it can declare a "reverse split" of say 1-for-10 so as to bring the price up to somewhere around \$20 per share.

29. Which of the following statements about dividend policies is CORRECT?

- a. Miller and Modigliani argued that investors prefer dividends to capital gains because dividends are more certain than capital gains. They call this the "bird-in-the-hand" effect.

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- b. One reason that companies tend to favor distributing excess cash as dividends rather than by repurchasing stock is that dividends are normally taxed at a lower rate than gains on repurchased stock.
 - c. One advantage of dividend reinvestment plans is that they allow shareholders to delay paying taxes on the dividends that they choose to reinvest.
 - d. One key advantage of the residual dividend model is that it enables a company to follow a stable dividend policy.
 - e. The clientele effect suggests that companies should follow a stable dividend policy.
30. Which of the following statements is CORRECT?
- a. One advantage of dividend reinvestment plans is that they enable investors to avoid paying taxes on the dividends they receive.
 - b. If a company has an established clientele of investors who prefer a high dividend payout, and if management wants to keep stockholders happy, it should not adhere strictly to the residual dividend model.
 - c. If a firm adheres strictly to the residual dividend model, then, holding all else constant, its dividend payout ratio will tend to rise whenever its investment opportunities improve.
 - d. If Congress eliminates taxes on capital gains but leaves the personal tax rate on dividends unchanged, this would motivate companies to increase their dividend payout ratios.
 - e. Despite its drawbacks, following the residual dividend model will tend to stabilize actual cash dividends, and this will make it easier for firms to attract a clientele that prefers high dividends, such as retirees.
31. Which of the following is NOT directly reflected in the cash budget of a firm that is in the zero tax bracket?
- a. Payments lags.
 - b. Depreciation.
 - c. Cumulative cash.
 - d. Repurchases of common stock.
 - e. Payment for plant construction.
32. Which of the following statements concerning the cash budget is CORRECT?
- a. Depreciation expense is not explicitly included, but depreciation's effects are reflected in the estimated tax payments.

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- b. Cash budgets do not include financial items such as interest and dividend payments.
 - c. Cash budgets do not include cash inflows from long-term sources such as the issuance of bonds.
 - d. Changes that affect the DSO do not affect the cash budget.
 - e. Capital budgeting decisions have no effect on the cash budget until projects go into operation and start producing revenues.
33. Which of the following statement completions is CORRECT? If the yield curve is upward sloping, then the marketable securities held in a firm's portfolio, assumed to be held for emergencies, should
- a. consist mainly of long-term securities because they pay higher rates.
 - b. consist mainly of short-term securities because they pay higher rates.
 - c. consist mainly of U.S. Treasury securities to minimize interest rate risk.
 - d. consist mainly of short-term securities to minimize interest rate risk.
 - e. be balanced between long- and short-term securities to minimize the adverse effects of either an upward or a downward trend in interest rates.
34. Which of the following actions would be likely to shorten the cash conversion cycle?
- a. Adopt a new manufacturing process that speeds up the conversion of raw materials to finished goods from 20 days to 10 days.
 - b. Change the credit terms offered to customers from 3/10, net 30 to 1/10, net 50.
 - c. Begin to take discounts on inventory purchases; we buy on terms of 2/10, net 30.
 - d. Adopt a new manufacturing process that saves some labor costs but slows down the conversion of raw materials to finished goods from 10 days to 20 days.
 - e. Change the credit terms offered to customers from 2/10, net 30 to 1/10, net 60.
35. Other things held constant, which of the following would tend to reduce the cash conversion cycle?
- a. Carry a constant amount of receivables as sales decline.
 - b. Place larger orders for raw materials to take advantage of price breaks.
 - c. Take all discounts that are offered.
 - d. Continue to take all discounts that are offered and pay on the net date.
 - e. Offer longer payment terms to customers.

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36. Which of the following statements is CORRECT?
- Due to limited liability, unlimited lives, and ease of ownership transfer, the vast majority of U.S. businesses (in terms of number of businesses) are organized as corporations.
 - Most businesses (by number and total dollar sales) are organized as proprietorships or partnerships because it is easier to set up and operate one of these forms rather than as a corporation. However, if the business gets very large, it becomes advantageous to convert to a corporation, primarily because corporations have important tax advantages over proprietorships and partnerships.
 - Due to legal considerations related to ownership transfers and limited liability, which affect the ability to attract capital, most business (measured by dollar sales) is conducted by corporations in spite of large corporations' less favorable tax treatment.
 - Large corporations are taxed more favorably than proprietorships.
 - Corporate stockholders are exposed to unlimited liability.
37. Which of the following statements is CORRECT?
- A hostile takeover is the main method of transferring ownership interest in a corporation.
 - A corporation is a legal entity created by a state, and it has a life and existence that is separate from the lives and existence of its owners and managers.
 - Unlimited liability and limited life are two key advantages of the corporate form over other forms of business organization.
 - Limited liability is an advantage of the corporate form of organization to its owners (stockholders), but corporations have more trouble raising money in financial markets because of the complexity of this form of organization.
 - Although the stockholders of the corporation are insulated by limited legal liability, the legal status of the corporation does not protect the firm's managers in the same way, i.e., bondholders can sue the firm's managers if the firm defaults on its debt.
38. Which of the following statements is CORRECT?
- In a typical partnership, liability for other partners' misdeeds is limited to the amount of a particular partner's investment in the business.
 - In a limited partnership, the limited partners have voting control, while the general partner has operating control over the business, and the limited partners are individually responsible, on a pro rata basis, for the firm's debts in the event of bankruptcy.
 - A slow-growth company, with little need for new capital, would be more likely to organize as a corporation than would a faster growing company.

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- d. Partnerships have more difficulty attracting large amounts of capital than corporations because of such factors as unlimited liability, the need to reorganize when a partner dies, and the illiquidity (difficulty buying and selling) of partnership interests.
- e. A major disadvantage of a partnership relative to a corporation is the fact that federal income taxes must be paid by the partners rather than by the firm itself.
39. Which of the following actions would be most likely to reduce potential conflicts of interest between stockholders and bondholders?
- Compensating managers with stock options.
 - Financing risky projects with additional debt.
 - The threat of hostile takeovers.
 - The use of covenants in bond agreements that limit the firm's use of additional debt and constrain managers' actions.
 - Abolishing the Security and Exchange Commission.
40. Which of the following actions would be most likely to reduce potential conflicts of interest between stockholders and managers?
- Pay managers large cash salaries and give them no stock options.
 - Change the corporation's formal documents to make it easier for outside investors to acquire a controlling interest in the firm through a hostile takeover.
 - Beef up the restrictive covenants in the firm's debt agreements.
 - Eliminate a requirement that members of the board of directors must hold a high percentage of their personal wealth in the firm's stock.
 - For a firm that compensates managers with stock options, reduce the time before options are vested, i.e., the time before options can be exercised and the shares that are received can be sold.
41. Which of the following factors could explain why Michigan Energy's cash balance increased even though it had a negative cash flow last year?
- The company sold a new issue of bonds.
 - The company made a large investment in new plant and equipment.
 - The company paid a large dividend.
 - The company had high depreciation expenses.
 - The company repurchased 20% of its common stock.

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42. Analysts who follow Howe Industries recently noted that, relative to the previous year, the company's net cash provided from operations increased, yet cash as reported on the balance sheet decreased. Which of the following factors could explain this situation?
- The company cut its dividend.
 - The company made large investments in fixed assets.
 - The company sold a division and received cash in return.
 - The company issued new common stock.
 - The company issued new long-term debt.
43. Which of the following statements is CORRECT?
- The statement of cash flows reflects cash flows from operations, but it does not reflect the effects of buying or selling fixed assets.
 - The statement of cash flows shows where the firm's cash is located; indeed, it provides a listing of all banks and brokerage houses where cash is on deposit.
 - The statement of cash flows reflects cash flows from continuing operations, but it does not reflect the effects of changes in working capital.
 - The statement of cash flows reflects cash flows from operations and from borrowings, but it does not reflect cash obtained by selling new common stock.
 - The statement of cash flows shows how much the firm's cash--the total of currency, bank deposits, and short-term liquid securities (or cash equivalents)--increased or decreased during a given year.
44. Which of the following statements is CORRECT?
- Most rapidly growing companies have positive free cash flows because cash flows from existing operations generally exceed fixed asset purchases and changes to net operating working capital.
 - Changes in working capital have no effect on free cash flow.
 - Free cash flow (FCF) is defined as follows:
$$\text{FCF} = \text{EBIT}(1 - T) + \text{Depreciation} - \text{Capital expenditures required to sustain operations} - \text{Required changes in net operating working capital}.$$
 - Free cash flow (FCF) is defined as follows:

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是否使用計算機：是

考試時間：100 分鐘

本科原始成績：100 分

$$FCF = EBIT(1 - T) + \text{Capital expenditures.}$$

- e. Managers should be less concerned with free cash flow than with accounting net income. Accounting net income is the “bottom line” and represents how much the firm can distribute to all its investors--both creditors and stockholders.
45. Which of the following would be most likely to occur in the year after Congress, in an effort to increase tax revenue, passed legislation that forced companies to depreciate equipment over longer lives? Assume that sales, other operating costs, and tax rates are not affected, and assume that the same depreciation method is used for tax and stockholder reporting purposes.
- Companies' after-tax operating profits would decline.
 - Companies' physical stocks of fixed assets would increase.
 - Companies' cash flows would increase.
 - Companies' cash positions would decline.
 - Companies' reported net incomes would decline.
46. Amram Company's current ratio is 2.0. Considered alone, which of the following actions would lower the current ratio?
- Borrow using short-term notes payable and use the proceeds to reduce accruals.
 - Borrow using short-term notes payable and use the proceeds to reduce long-term debt.
 - Use cash to reduce accruals.
 - Use cash to reduce short-term notes payable.
 - Use cash to reduce accounts payable.
47. Which of the following statements is CORRECT?
- If a security analyst saw that a firm's days' sales outstanding (DSO) was higher than the industry average, and was increasing and trending still higher, this would be interpreted as a sign of strength.
 - A high average DSO indicates that none of its customers are paying on time. In addition, it makes no sense to evaluate the firm's DSO with the firm's credit terms.
 - There is no relationship between the days' sales outstanding (DSO) and the average collection period (ACP). These ratios measure entirely different things.
 - A reduction in accounts receivable would have no effect on the current ratio, but it would lead to an increase in the quick ratio.

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- e. If a firm increases its sales while holding its accounts receivable constant, then, other things held constant, its days' sales outstanding will decline.
48. Which of the following statements is CORRECT?
- a. If one firm has a higher debt ratio than another, we can be certain that the firm with the higher debt ratio will have the lower TIE ratio, as that ratio depends entirely on the amount of debt a firm uses.
 - b. A firm's use of debt will have no effect on its profit margin.
 - c. If two firms differ only in their use of debt--i.e., they have identical assets, sales, operating costs, interest rates on their debt, and tax rates--but one firm has a higher debt ratio, the firm that uses more debt will have a lower profit margin on sales and a lower return on assets.
 - d. The debt ratio as it is generally calculated makes an adjustment for the use of assets leased under operating leases, so the debt ratios of firms that lease different percentages of their assets are still comparable.
 - e. If two firms differ only in their use of debt--i.e., they have identical assets, sales, operating costs, and tax rates--but one firm has a higher debt ratio, the firm that uses more debt will have a higher operating margin and return on assets.
49. Which of the following statements is CORRECT?
- a. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10% and its debt increases from 40% of total assets to 60%. Under these conditions, the ROE will increase.
 - b. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10% and its debt increases from 40% of total assets to 60%. Without additional information, we cannot tell what will happen to the ROE.
 - c. The DuPont equation provides information about how operations affect the ROE, but the equation does not include the effects of debt on the ROE.
 - d. Other things held constant, an increase in the debt ratio will result in an increase in the profit margin.
 - e. Suppose a firm's total assets turnover ratio falls from 1.0 to 0.9, but at the same time its profit margin rises from 9% to 10%, and its debt increases from 40% of total assets to 60%. Under these conditions, the ROE will decrease.
50. Companies HD and LD have the same sales, tax rate, interest rate on their debt, total assets, and basic earning power. Both companies have positive net incomes. Company HD

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has a higher debt ratio and, therefore, a higher interest expense. Which of the following statements is CORRECT?

- a. Company HD pays less in taxes.
- b. Company HD has a lower equity multiplier.
- c. Company HD has a higher ROA.
- d. Company HD has a higher times-interest-earned (TIE) ratio.
- e. Company HD has more net income.