KRV1 Finance Skills Exam Version 1

Section: Business & Finance • **Total Questions:** 10 • **Format:** Verified Q&A

1. A financial manager must decide between new project opportunities for the upcoming year. Which project could result in agency costs to the firm?

(A) A project to purchase new equipment for the manufacturing facility that is shown to provide a higher return than alternative projects and reduce company costs significantly

(B) A project to fund expensive luxury corporate jets for upper management and purchase a private island to entertain potential partners

(C) A project to expand the employee stock program to compensate upper management with shares of ownership in the company

(D) A project to implement a leadership training program for all new employees of the company who show high potential

2. A group of investors want to start a new manufacturing business. Which cost is relevant for estimating the cash flows of starting this business?

(A) $30,000 cost of market research

(B) $100,000 paid for equipment

(C) $150,000 purchase price of the land

(D) $1.2 million for a new factory

3. Why are there multiple dealers in the financial market who provide liquidity to investors?

(A) They reduce the cost of borrowing from or selling to the public.

(B) They allow investors access to much lower interest rates.

(C) They manage and administer returns on regulated investments.

(D) They reduce risk by regulating publicly held companies.

4. What is a disadvantage of using the internal rate of return method?

(A) It assumes reinvestment at the IRR rate.

(B) It does not consider the time value of money.

(C) It does not consider all cash flows.

(D) It requires calculation of the cost of capital.

5. What should an individual do after creating a personal budget?

(A) Identify how much income is needed to cover expenses

(B) Spend as much as possible within the budget's time frame

(C) Monitor the budget and track spending habits

(D) Constantly revise the budget to maximize efficiency

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6. A bond has a price of $1,054.32 and a face value of $1,000. Which term is used to describe the selling price of this bond?

(A) Par

(B) Discount

(C) Premium

(D) Coupon

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7. What is one way to reduce the negative effects of an agency problem?

(A) Increase the number of managers relative to stockholders

(B) Give pay raises to managers

(C) Provide managers with higher sales commissions

(D) Compensate managers with shares of stock in the firm

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8. Which type of ratio analysis occurs when a financial analyst is making a comparison of a firm's performance against the industry?

(A) Regression analysis

(B) Progress analysis

(C) Cross-sectional analysis

(D) Trend analysis

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9. The following table shows four ratios of two companies in the technology industry. Based on these ratios, which statement correctly compares Pruahrt Tech and Synesthor?

(A) Pruahrt Tech manages inventory more efficiently than Synesthor.

(B) Pruahrt Tech is more conservatively financed than Synesthor.

(C) Pruahrt Tech has better production cost efficiency than Synesthor.

(D) Pruahrt Tech's credit standard is not as strict as that of Synesthor.

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10. What best describes the sustainable growth rate (SGR) in terms of a financial analysis?

(A) The growth rate that incorporates future market risk and the inherent growth of a firm's stock price

(B) How fast a firm can grow while being environmentally sustainable and not having a negative social impact on the community

(C) The growth rate in sales that is most likely for a firm in a future period

(D) How fast a firm can grow without issuing new equity or assuming new debt