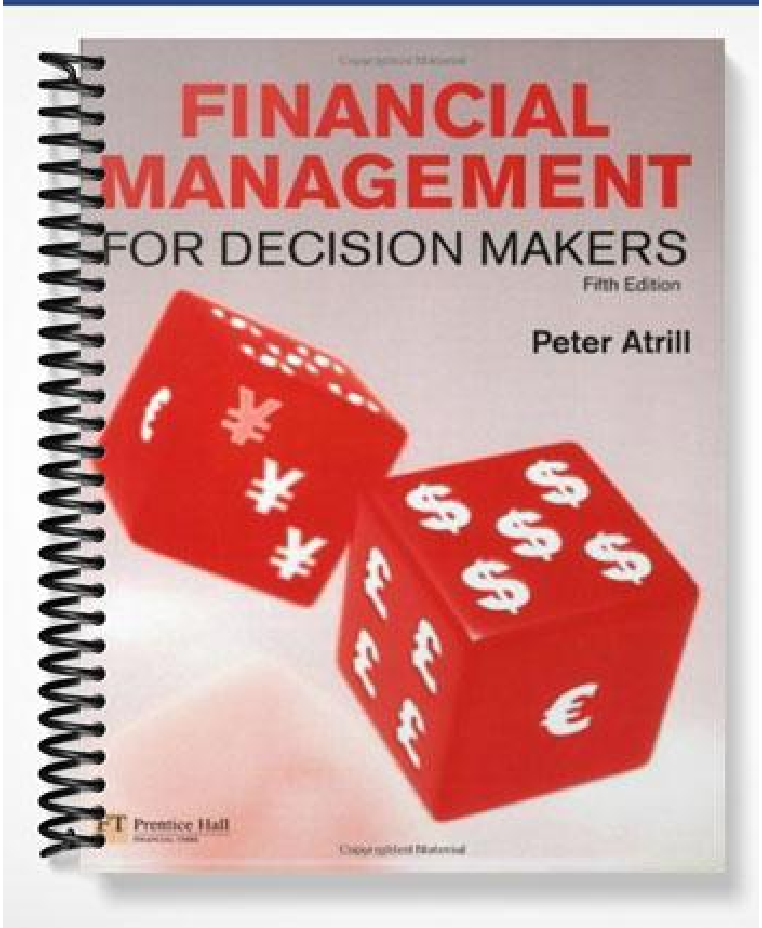
TEST BANK


FINANCIAL
MANAGEMENT
FOR DECISION MAKERS
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Peter Atrill
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TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Operating cash flow and earnings before interest and taxes (EBIT) represent exactly the same thing. 1) _______

2) The investment decision deals with how much money to invest in a firm's assets as well as which specific assets the firm should invest in. 2) _______

3) Accounting income flows are generally identical to cash flows. 3) _______

4) Creditors and the government generally have a higher priority claim to a firm's operating cash flow than the firm's owners. 4) _______

5) When a corporation's board of directors decides to keep the owners' money and reinvest it in the firm, it is implicitly making a new investment for the owners. 5) _______

6) A project creates value for the owners of a firm when it generates an NPV greater than zero. 6) _______

7) The owners' opportunity cost is also called the required rate of return. 7) _______

8) Capital intensity measures the level of debt financing used in a firm's capital structure. 8) _______

9) It is usually easier for a firm to reduce the variability of its operating cash flow by diversifying than it is for the firm's owners to diversify on their own. 9) _______

10) It is virtually impossible to erect entry barriers in the capital markets. 10) ______

11) Some of the cost of debt financing is paid by the government. 11) ______

12) The potential for costly financial distress tends to encourage excessive reliance on debt financing. 12) ______

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

13) The managers of a hospitality firm should pay out the firm's earnings as dividends if the return the firm can generate on the owners' money (ROE) is: 13) ______

A) less than kE
B) greater than kE
C) greater than Rf
D) less that Rf

14) All of the following can be sued as entry barriers except: 14) ______

A) trademarks
B) patents
C) new types of stock
D) copyrights

15) When management increases ROE by using increased debt financing: 15) ______

A) the risk of the investment remains the same
B) the risk of the investment decreases
C) the owners' required rate of return rises

D) the owners' required rate of return remains the same

16) The "investment decision" looks at: 16) ______
A) the firm's capital structure
B) which assets the firm should invest in
C) how to raise the funds to pay for the firm's worthwhile investments
D) decisions involving the right side of the firm's balance sheet

17) Operating Cash Flow is: 17) ______
A) cash operating revenue minus cash operating expenses
B) cash operating revenue plus cash operating expenses
C) cash operating revenue
D) cash operating expenses

18) Operating Cash Flow is generated by the firm's: 18) ______
A) liability structure
B) equity structure
C) capital structure
D) asset structure

19) After the creditors and the government are taken care of, the firm's remaining cash flow belongs to 19) ______
A) the owners
B) the customers
C) the managers
D) the employees

20) Managers can either pay the firm's earnings out as a dividend or: 20) ______
A) have no control over what happens to it
B) it is taxed away
C) reinvest it back in the business
D) lose it

21) The managers of a hospitality firm should pay out the firm's earnings as dividends if it is unable to generate a ________ on the money 21) ______
A) NPV<0
B) Ka<Ke
C) NPV≥0
D) Vo<0

22) Entry barriers 22) ______
A) are only important for very large hospitality firms
B) allow a hospitality firm to take an action that its competitors cannot easily duplicate
C) prevent a hospitality firm from taking an action that its competitors cannot easily duplicate
D) prevent a hospitality firm from taking an action that its competitors can easily duplicate

23) Capital intensity can be calculated by: 23) ______
A) sales/interest expense
B) sales/cost of goods sold
C) sales/assets
D) sales/debt

24) Reducing the variability of operating cash flows: 24) ______
A) does not effect the risk of the cash flows to the owners
B) decreases Vo[DIVt]
C) decreases the risk of the cash flows to the owners
D) increases the risk of the cash flows to the owners

25) Entry barriers can be used by hospitality managers to create value via: 25) ______
A) the asset structure
B) the capital structure
C) the capital structure and the asset structure
D) neither the capital structure nor the asset structure

26) In our tax system, for a hospitality firm: 26) ______
A) debt has an advantage over equity
B) equity has an advantage over debt
C) neither debt nor equity has an advantage over the other
D) there is no impact of debt or equity financing on taxes

27) The optimal capital structure of a hospitality firm occurs where: 27) ______
A) the value of the interest tax shield exceeds the value of the potential costs of financial distress
B) the value of the interest tax shield is less than the value of the potential costs of financial distress
C) the amount of debt capital is equal to the amount of equity capital
D) the value of the interest tax shield and the value of the potential costs of financial distress are equal

28) Operating with an optimal capital structure by a hospitality firm is: 28) ______
A) a result of being able to erect capital structure entry barriers
B) a value minimizing decision
C) a value maximizing decision
D) a value creating decision

29) The Rate of Return Trap refers to making decisions based solely on: 29) ______
A) NPV
B) ROE
C) interest rates
D) EBIT

30) An investment that creates value for a hospitality firm will have: 30) ______
A) ROE>Ke
B) NPV<0
C) NPV>Ke
D) ROE<EBIT

31) OCF (operating cash flows) normally differ from EBIT (earnings before interest and taxes) because of: 31) ______
A) non-cash operating revenues
B) depreciation
C) non-cash operating expenses
D) all of the above

32) The ratio Debt/(Debt + Equity) is called the: 32) ______
A) asset turnover ratio
B) liability ratio
C) leverage ratio
D) current ratio

1) FALSE
2) TRUE
3) FALSE
4) TRUE
5) TRUE
6) TRUE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) TRUE
12) FALSE
13) A
14) C
15) C
16) B
17) A
18) D
19) A
20) C
21) C
22) B
23) C
24) C
25) A
26) A
27) D
28) C
29) B
30) A
31) D
32) C