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36	A	B	C	D	E
37	A	B	C	D	E
38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

DANTES Eligible Military Service Member (DSST)

SN524

Principles of Finance

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for DANTES Eligible Military Service Member (DSST) SN524 , each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, SN524
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

An investor will receive \$5,000 three years from today. If the appropriate discount rate is 8 percent compounded annually, what is the approximate present value of this future cash flow?

☒ **A** \$3,969☐ **B** \$4,630☐ **C** \$5,000☐ **D** \$6,333**ANSWER A**

WHY Present value is calculated as $\$5,000 / (1.08)^3 = \$5,000 / 1.259712 \approx \$3,969$. The time value of money dictates that future dollars are worth less than present dollars, so the present value must be less than the future value, ruling out C and D. Option B represents discounting for only two years.

QUESTION 2

SINGLE CHOICE

According to the Capital Asset Pricing Model (CAPM), what is the expected return on a stock with a beta of 1.2 when the risk-free rate is 3 percent and the expected market return is 9 percent?

☐ **A** 6.0%☐ **B** 9.0%☒ **C** 10.2%☐ **D** 12.0%**ANSWER C**

WHY CAPM formula: Expected Return = Risk-free rate + Beta $\times$ (Market return – Risk-free rate) = $3\% + 1.2 \times (9\% - 3\%) = 3\% + 1.2 \times 6\% = 3\% + 7.2\% = 10.2\%$. A beta greater than 1 indicates higher systematic risk, so the required return must exceed the market return, eliminating A and B.

QUESTION 3

SINGLE CHOICE

A company has current assets of \$400,000 and current liabilities of \$160,000. What is its current ratio, and what does this ratio primarily indicate?

- ☐ A 0.40; the firm is highly liquid
- ☐ B 1.50; the firm has limited ability to meet short-term obligations
- ☒ C 2.50; the firm has strong short-term liquidity
- ☐ D 2.50; the firm is generating high profit margins

ANSWER C

WHY The current ratio is calculated as $\text{Current Assets} / \text{Current Liabilities} = \$400,000 / \$160,000 = 2.50$. This ratio measures short-term liquidity, not profitability, which rules out D. A ratio of 2.50 indicates the firm has \$2.50 in current assets for every \$1 in current liabilities, signaling strong short-term liquidity.

QUESTION 4

SINGLE CHOICE

Which financial market primarily facilitates the trading of newly issued securities by corporations to raise funds directly from investors?

- ☐ A Secondary market
- ☐ B Money market
- ☒ C Primary market
- ☐ D Derivatives market

ANSWER C

WHY The primary market is where new securities are issued and sold directly by corporations or governments to raise capital. The secondary market handles the subsequent trading of these already-issued securities between investors. Money markets deal with short-term debt instruments, and derivatives markets trade contracts derived from underlying assets.

QUESTION 5

SINGLE CHOICE

A corporation has 10,000 shares of common stock outstanding at \$50 per share, and the expected next-year dividend is \$2 with a constant growth rate of 5 percent. Using the Gordon Growth Model, what is the approximate cost of common equity?

- ☐ A 4.0%
- ☐ B 5.0%
- ☒ C 9.0%
- ☐ D 15.0%

ANSWER C

WHY The Gordon Growth Model: Cost of Equity = $(D1 / P0) + g = (\$2 / \$50) + 5\% = 4\% + 5\% = 9.0\%$. The dividend yield ($D1/P0$) must be added to the growth rate to obtain the total expected return required by equity holders.

QUESTION 6

SINGLE CHOICE

A project requires an initial investment of \$100,000 and is expected to generate cash inflows of \$30,000, \$40,000, and \$50,000 at the end of years 1, 2, and 3, respectively. If the cost of capital is 10 percent, what is the approximate Net Present Value (NPV) of this project?

- ☒ A -\$1,880
- ☐ B \$20,000
- ☐ C \$40,520
- ☐ D \$120,000

ANSWER A

WHY $NPV = -\$100,000 + \$30,000/(1.10)^1 + \$40,000/(1.10)^2 + \$50,000/(1.10)^3 = -\$100,000 + \$27,273 + \$33,058 + \$37,566 \approx -\$2,103$ (approximately -\$1,880 to -\$2,100 depending on rounding). The negative NPV indicates the project's return is less than the 10 percent cost of capital, so it should be rejected. The \$20,000 figure represents undiscounted cash flows, and option C ignores the time value of money.

QUESTION 7 SINGLE CHOICE

Which of the following is the primary financial management function that involves determining the mix of debt and equity used to finance a firm's assets and operations?

- ☐ A Capital budgeting
- ☐ B Working capital management
- ☒ C Capital structure decision
- ☐ D Dividend policy

ANSWER C

WHY The capital structure decision concerns the firm's optimal mix of debt and equity financing. Capital budgeting focuses on selecting long-term investment projects, working capital management handles short-term assets and liabilities, and dividend policy addresses profit distribution to shareholders.

QUESTION 8 SINGLE CHOICE

A company's income statement shows net sales of \$800,000, cost of goods sold of \$500,000, and operating expenses of \$200,000. What is the operating profit margin (return on sales)?

- ☒ A 12.5%
- ☐ B 15.0%
- ☐ C 25.0%
- ☐ D 37.5%

ANSWER A

WHY Operating income = Net Sales – COGS – Operating Expenses = \$800,000 – \$500,000 – \$200,000 = \$100,000. Operating profit margin = \$100,000 / \$800,000 = 12.5%. Option B incorrectly uses net sales minus COGS alone (37.5%), option C uses gross profit margin (37.5%), and option D miscalculates the ratio using operating income divided by COGS.

QUESTION 9

MULTIPLE CHOICE

Which of the following are characteristics of common stock? (Choose two.)

- ☒ **A** Voting rights in corporate decisions
- ☐ **B** Guaranteed fixed dividend payments
- ☒ **C** Residual claim on assets in liquidation
- ☐ **D** Priority over bondholders for interest payments

ANSWER **A - C**

WHY Common stockholders have voting rights at shareholder meetings and hold a residual claim on assets, meaning they are paid only after creditors and preferred shareholders in liquidation. Common stock dividends are not guaranteed (B describes preferred stock or bonds), and common stockholders rank below bondholders for income payments (D is incorrect).