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# Financial-Management

WGU Financial Management VBC1

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### Question 1. (Single Select)

Alliah Company produces vaccines at its pharmaceutical facility near a river. It is considering expanding its operations by building a second facility next to the first. The company holds a public hearing to discuss an extra investment it will make to minimize pollution and keep the river clean and thriving for the native wildlife.

How does this effort support the overall goal of the firm?

- A: Alliah Company is seeking to focus initially on maximizing value to the shareholders—or owners—of the firm, and the extra costs to prevent pollution will increase the immediate earnings available for owners.
- B: Alliah Company is focusing on consumers first and foremost to create the greatest value for the company. Reducing this pollution will directly improve the quality of products the company creates.
- C: Alliah Company is considering the long-term impact on shareholder value and the company's social responsibility to all stakeholders—including the environment and local community.
- D: Alliah Company is ensuring this action will reduce immediate costs to maximize employee engagement and earnings—because the ultimate goal of a company is employee-oriented.

**Answer: C**

#### **Explanation:**

The firm's overarching financial objective is typically framed as maximizing long-term shareholder value, not just short-term profits. Actions that reduce environmental harm can support this objective by lowering the probability of costly future liabilities (fines, cleanup costs, lawsuits), reducing regulatory risk, and protecting the firm's "license to operate" granted by the community and government. In financial management terms, managers consider not only immediate cash outflows (the pollution-control investment) but also the present value of avoided future cash outflows and the stability of future cash inflows. A public hearing also reflects stakeholder orientation: communities, regulators, customers, and employees affect the firm's risk profile and operating continuity. Protecting the river can strengthen corporate reputation, reduce political and legal pressure, and improve long-run competitive position—all of which can raise the expected future free cash flows or lower the firm's perceived risk (and therefore its required return). Option C best captures the standard finance view that ethical and socially responsible decisions can align with value maximization when they manage risk and support sustainable, long-term performance.

### Question 2. (Single Select)

A start-up company's lender is concerned that the company may not be able to meet its financial obligations. It asks the company to provide it with information regarding its current assets and current liabilities.

Which information would the start-up company need to provide to the lender?

- A: Investments that the firm plans to hold for more than one year
- B: Obligations that require cash within the next year
- C: Long-term debt obligations payable to the bank
- D: Depreciation of equipment the firm uses for its daily operations

**Answer: B**

**Explanation:**

Current liabilities are obligations that a firm must settle within one operating cycle or one year, whichever is longer. When a lender evaluates a firm's short-term financial health, the primary concern is liquidity—whether the firm has sufficient short-term resources to meet near-term obligations as they come due. Examples of current liabilities include accounts payable, short-term loans, accrued expenses, and current portions of long-term debt. This information allows lenders to compute liquidity ratios such as the current ratio and quick ratio, which measure the firm's ability to cover short-term obligations with current assets. Long-term investments, long-term debt, and depreciation relate more to long-term solvency and accounting allocation rather than immediate cash requirements. Because the lender is specifically concerned about the company's ability to meet financial obligations in the near term, obligations requiring cash within the next year are the most relevant. Thus, option B accurately reflects the definition and purpose of current liabilities in financial statement analysis.

**Question 3. (Single Select)**

A financial analyst is trying to understand the return that shareholders of a stock receive through dividend payments. The analyst is given the following information:

Company Information—Previous Year

- Revenue: \$500,000

- Net Income: \$50,000
- Change in Retained Earnings: \$30,000
- Change in Total Assets: \$40,000

What is the amount of dividends paid during the previous year to shareholders?

- A: \$20,000
- B: \$30,000
- C: \$40,000
- D: \$50,000

**Answer: A**

**Explanation:**

Dividends paid to shareholders can be determined by analyzing the relationship between net income and retained earnings. Net income represents the total earnings generated during the period, while retained earnings show the portion of net income that is reinvested in the company rather than distributed to shareholders. The basic relationship is:

Net Income = Dividends Paid + Increase in Retained Earnings.

In this case, net income is \$50,000 and retained earnings increased by \$30,000. Therefore, dividends paid must be the remaining portion of earnings:

$$\$50,000 - \$30,000 = \$20,000.$$

The change in total assets is not directly relevant for calculating dividends, as asset growth can be financed through retained earnings, debt, or equity issuance. From a financial management perspective, this calculation helps analysts assess dividend policy, payout ratios, and the firm's balance between returning cash to shareholders and reinvesting in growth. Option A correctly identifies the dividends paid based on standard accounting relationships used in financial statement analysis.

**Question 4. (Single Select)**

Why might tax expense on the income statement not reflect the actual taxes paid by a firm?

- A: Because there are differences between tax and accrual accounting rules
- B: Because tax expense is never an estimation and not based on real figures
- C: Because all tax expenses on the income statement accurately reflect taxes paid

D: Because tax expenses are always deferred to the next fiscal year

**Answer: A**

**Explanation:**

Tax expense reported on the income statement is calculated using accrual accounting, which recognizes revenues and expenses when they are earned or incurred, not necessarily when cash is paid. In contrast, actual taxes paid are based on tax laws and cash payments made to tax authorities. Differences arise due to temporary and permanent timing differences between financial reporting rules and tax regulations. Examples include depreciation methods, revenue recognition timing, loss carryforwards, and deferred tax assets or liabilities. These differences cause tax expense to diverge from cash taxes paid in a given period. Financial managers and analysts must understand this distinction to accurately assess cash flows, particularly when forecasting free cash flow or valuing firms. Option A correctly explains this discrepancy, whereas the other options either deny the existence of differences or incorrectly characterize tax expense accounting.

**Question 5. (Single Select)**

In the statement of cash flows, what is the most commonly used method by financial analysts to calculate cash flows from operations (CFO)?

- A: The direct method
- B: The indirect method
- C: The asset disposal method
- D: The balance sheet method

**Answer: B**

**Explanation:**

The indirect method is the most commonly used approach to calculate cash flows from operations (CFO). Under this method, analysts begin with net income and adjust for non-cash expenses (such as depreciation and amortization) and changes in working capital accounts (current assets and current liabilities). This method highlights the reconciliation between accrual-based net income and actual cash generated by operations. Financial analysts favor the indirect method because it provides insight into how accounting

profits translate into cash flows and helps identify earnings quality issues. Although the direct method shows actual cash inflows and outflows from operations, it is less commonly used due to higher data requirements. The indirect method is widely accepted under accounting standards and dominates published financial statements, making it the standard tool in financial statement analysis and valuation work.

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