



DANTES Subject Standardized Tests

Fact Sheet

PRINCIPLES OF FINANCE

TEST INFORMATION

This test was developed to enable schools to award credit to students for knowledge equivalent to that which is learned by students taking the course. The school may choose to award college credit to the student based on the achievement of a passing score. The passing score for each examination is determined by the school based on recommendations from the American Council on Education (ACE). This minimum credit-awarding score is equal to the mean score of students in the norming sample who received a grade of C in the course. Some schools set their own standards for awarding credit and may require a higher score than the ACE recommendation. Students should obtain this information from the institution where they expect to receive credit.

The use of non-programmable calculators is permitted during the test. Scratch paper for computations should be provided.

CONTENT

The following topics, which are commonly taught in courses on this subject, are covered by this examination.

	Approximate Percent
I. Financial Statements and Planning	25%
A. Ratio analysis	
B. Break-even	
C. Leverage	
II. Time Value of Money	15%
A. Present value	
B. Future value	
III. Working Capital Management	18%
A. Short-term sources of funds	
B. Management of short-term assets	

	Approximate Percent
IV. Valuation and Characteristics of Stocks and Bonds	11%
A. Long-term debt	
B. Common stock	
V. Capital Budgeting	13%
VI. Cost of Capital	11%
VII. Risk and Return	4%
VIII. International Financial Management	3%

Questions on the test require candidates to demonstrate the following abilities. Some questions may require more than one of these abilities.

- Knowledge of basic facts and terms (about 35 to 40 % of the examination)
- Understanding of the concepts and principles (about 50 % of the examination)
- Ability to apply knowledge to specific problems and situations (about 10 to 15% of the examination)

SAMPLE QUESTIONS

Note: If a question requires data from time-value tables, these tables will be provided in the test book.

1. Which of the following statements is true about a stock split?
 - (A) It increases equity.
 - (B) It decreases assets.
 - (C) It increases retained earnings.
 - (D) It decreases the par value of the stock.



2. When a firm pays a cash dividend, the firm's balance sheet is affected in which of the following ways?
- (A) Assets and equity remain the same.
 - (B) Assets decrease and equity increases.
 - (C) Assets and liabilities decrease.
 - (D) Assets and equity decrease.
3. The degree of financial leverage measures the responsiveness of
- (A) earnings to changes in operating expenses
 - (B) earnings to changes in output
 - (C) earnings before taxes to changes in operating income
 - (D) operating income to changes in net income
4. In linear break-even analysis, a decrease in fixed costs, if other factors remain constant, will cause the break-even point and the degree of operating leverage to do which of the following?
- | <u>Break-even Point</u> | <u>Degree of Operating Leverage</u> |
|-------------------------|-------------------------------------|
| (A) Increase | Decrease |
| (B) Decrease | Decrease |
| (C) Decrease | Increase |
| (D) Increase | Increase |
5. Which of the following terms of trade credit is most favorable for the buyer?
- (A) 2/15 net 30
 - (B) 2/15 net 45
 - (C) 3/10 net 30
 - (D) 3/15 net 45
6. The internal rate of return for a project will be higher if the
- (A) cost of capital is lower
 - (B) cost of capital is higher
 - (C) initial investment is lower
 - (D) initial investment is higher
7. If the internal rate of return of two mutually exclusive investments is less than the firm's cost of capital, the firm should make which of the following investments, if any?
- (A) The shorter term investment
 - (B) The investment with the lower internal rate of return
 - (C) The investment with the higher internal rate of return
 - (D) None of the above
8. Which of the following is associated with a stock dividend as opposed to a cash dividend?
- (A) An increase in assets
 - (B) An increase in equity
 - (C) A decrease in assets
 - (D) No change in liabilities
9. The primary responsibility of a financial manager is to maximize the firm's
- (A) stockholder wealth
 - (B) sales
 - (C) earnings
 - (D) profits
10. Which two of the following would be preferable to bond owners?
- I. A debt ratio of 50% rather than 20%
 - II. A debt ratio of 20% rather than 50%
 - III. A times-interest-earned of 2.0 rather than 5.0
 - IV. A times-interest-earned 5.0 rather than 2.0
- (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV
11. Which of the following will cause a currency outflow from the United States?
- (A) The purchase of United States plants and equipment by Japanese investors
 - (B) The maintenance of United States military bases in Europe
 - (C) The trading of Japanese yen for United States dollars by Japanese investors
 - (D) The return of income from United States investments in Europe

STUDYING FOR THE EXAMINATION

The following is a list of reference publications that were being used as textbooks in college courses of the same or similar title at the time the test was developed. Appropriate textbooks for study are not limited to those listed below. If you wish to obtain study resources to prepare for the examination, you may reference either the current edition of the following titles **or** textbooks currently used at a local college or university for the same class title. It is recommended that you reference **more than one textbook** on the topics outlined in this fact sheet. You should **begin by checking textbook content against the content outline** included on the front page of this Fact Sheet **before** selecting textbooks that cover the test content from which to study. Textbooks may be found at the campus bookstore of a local college or university offering a course on the subject.

Sources for study material suggested but not limited to the following:

Block, Stanley B. and Geoffrey A. Hirt. *Foundations of Financial Management*. Chicago, IL: Irwin, current edition.

Dickerson, Bodil, B.J. Campsey, and Eugene F. Brigham. *Introduction to Financial Management*. Fort Worth, TX: Dryden Press, current edition.

Gitman, Lawrence J. *Foundations of Managerial Finance*. New York: Harper Collins, current edition.

Kolb, Burton A. and Richard F. DeMong. *Principles of Financial Management*. Plano, TX: Business Publications, current edition.

Mayo, Herbert B. *Finance: An Introduction*. Fort Worth, TX: Dryden Press, current edition.

Melicher, Ronald W., Edgar A. Norton and Merle T. Welshans. *Finance: Introduction to Markets,*

Institutions and Management. Cincinnati, OH: South-Western Publishing Co., current edition.

Roden, Payton Foster and George A. Christy. *Finance: Environment and Decisions*. New York: Harper & Row, current edition.

Current textbook used by a local college or university for a course on the subject.

CREDIT RECOMMENDATIONS

The Center For Adult Learning and Educational Credentials of the American Council on Education (ACE) has reviewed and evaluated the DSST examination development process. The American Council on Education has made the following recommendations:

Area or Course	
Equivalent:	Principles of Finance
Level:	Upper-level Baccalaureate
Amount of Credit:	Three (3) semester hours
Source:	ACE Commission on Educational Credit and Credentials

INFORMATION

Colleges and universities that would like additional information about the national norming, or assistance in local norming or score validation studies should write to: DSST Program, Mail Stop 11-P, The Chauncey Group International, 664 Rosedale Road, Princeton, New Jersey 08540.

It is advisable that schools develop a consistent policy about awarding credit based on scores from this test and that the policy be reviewed periodically. The Chauncey Group will be happy to help schools in this effort.

Correct responses to sample questions: 1.D; 2.D; 3.C; 4.B; 5.D; 6.C; 7.D; 8.D; 9.A; 10.D; 11.B.

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