Chapter 01: Introduction to Corporate Finance

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| 1. | When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important.    True    False |

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| 2. | In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.    True    False |

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| 3. | Maximization of the current earnings of the firm is the main goal of the financial manager.    True    False |

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| 4. | The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation.    True    False |

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| 5. | The primary goal of financial management is to minimize the corporate tax liability.    True    False |

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| 6. | When owners are managers (such as in a sole proprietorship), a firm will have agency costs.    True    False |

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| 7. | IBEC Inc. of Toronto spends approximately $2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.    True    False |

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| 8. | The board of directors has the power to act on behalf of the shareholders to hire and fire the operating management of the firm. In a legal sense, the directors are "principals" and the shareholders are "agents".    True    False |

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| 9. | The corporate officer generally responsible for tasks related to tax management, cost accounting, financial accounting, and data processing is the:      |  |  | | --- | --- | | A. | Corporate Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Corporate Controller. |  |  |  | | --- | --- | | D. | Chairman of the Board. |  |  |  | | --- | --- | | E. | Vice President of Operations. | |

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| 10. | The corporate officer generally responsible for tasks related to cash and credit management, financial planning, and capital expenditures is the:      |  |  | | --- | --- | | A. | Corporate Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Corporate Controller. |  |  |  | | --- | --- | | D. | Chairman of the Board. |  |  |  | | --- | --- | | E. | Vice President of Operations. | |

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| 11. | The process of planning and managing a firm's Long-term investments is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 12. | The mixture of debt and equity used by the firm to finance its operations is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 13. | The management of the firm's short-term assets and liabilities is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 14. | A business owned by a single individual is called a(n):      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| 15. | A business formed by two or more individuals or entities is called a(n):      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| 16. | The division of profits and losses between the members of a partnership is formalized in the:      |  |  | | --- | --- | | A. | Indemnity clause. |  |  |  | | --- | --- | | B. | Indenture contract. |  |  |  | | --- | --- | | C. | Statement of purpose. |  |  |  | | --- | --- | | D. | Partnership agreement. |  |  |  | | --- | --- | | E. | Group charter. | |

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| 17. | A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| 18. | The document that legally establishes domicile for a corporation is called the:      |  |  | | --- | --- | | A. | Indenture contract. |  |  |  | | --- | --- | | B. | Partnership agreement. |  |  |  | | --- | --- | | C. | Amended homestead filing. |  |  |  | | --- | --- | | D. | Bylaws. |  |  |  | | --- | --- | | E. | Articles of incorporation. | |

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| 19. | The rules by which corporations govern themselves are called:      |  |  | | --- | --- | | A. | Indenture provisions. |  |  |  | | --- | --- | | B. | Indemnity provisions. |  |  |  | | --- | --- | | C. | Partnership agreements. |  |  |  | | --- | --- | | D. | Bylaws. |  |  |  | | --- | --- | | E. | Articles of incorporation. | |

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| 20. | The primary goal of financial management is to:      |  |  | | --- | --- | | A. | Maximize current sales. |  |  |  | | --- | --- | | B. | Maximize the current value per share of the existing stock. |  |  |  | | --- | --- | | C. | Avoid financial distress. |  |  |  | | --- | --- | | D. | Minimize operational costs. |  |  |  | | --- | --- | | E. | Maintain steady earnings growth. | |

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| 21. | The possibility of conflict of interest between the stockholders and management of the firm is called:      |  |  | | --- | --- | | A. | The shareholders' conundrum. |  |  |  | | --- | --- | | B. | Corporate breakdown. |  |  |  | | --- | --- | | C. | The agency problem. |  |  |  | | --- | --- | | D. | Corporate activism. |  |  |  | | --- | --- | | E. | Legal liability. | |

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| 22. | Agency costs are:      |  |  | | --- | --- | | A. | The total dividends paid to shareholders over the lifetime of the firm. |  |  |  | | --- | --- | | B. | The costs that result from default and bankruptcy of the firm. |  |  |  | | --- | --- | | C. | Corporate income subject to double taxation. |  |  |  | | --- | --- | | D. | The costs of the conflict of interest between stockholders and management. |  |  |  | | --- | --- | | E. | The total interest paid to creditors over the lifetime of the firm. | |

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| 23. | A stakeholder is:      |  |  | | --- | --- | | A. | Given to each stockholder when they first purchase their stock. |  |  |  | | --- | --- | | B. | A proxy vote made at a shareholders' meeting. |  |  |  | | --- | --- | | C. | A founding stockholder of the firm. |  |  |  | | --- | --- | | D. | An original creditor of the firm. |  |  |  | | --- | --- | | E. | A person or entity including a stockholder or creditor, who potentially has a claim on the cash flows of the firm. | |

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| 24. | The original sale of securities by governments and corporations occurs in the:      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 25. | The purchase and sale of securities after the original issuance occurs in the:      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 26. | A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 27. | A market where trading takes place between buyers and sellers directly is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 28. | The secondary market is:       |  |  | | --- | --- | | A. | The market for the original sale of securities by governments and corporations. |  |  |  | | --- | --- | | B. | The market in which dealers buy and sell for themselves, at their own risk. |  |  |  | | --- | --- | | C. | The market in which purchasers are matched with those who wish to sell. |  |  |  | | --- | --- | | D. | A market which has no central Location. |  |  |  | | --- | --- | | E. | The market in which securities are bought and sold after original sale. | |

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| 29. | The Corporate Treasurer is in charge of:      |  |  | | --- | --- | | A. | Cost accounting. |  |  |  | | --- | --- | | B. | Credit management. |  |  |  | | --- | --- | | C. | Data processing. |  |  |  | | --- | --- | | D. | Tax management. |  |  |  | | --- | --- | | E. | Financial accounting. | |

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| 30. | The Chief Financial Officer of a corporation is the:      |  |  | | --- | --- | | A. | Chairman of the Board. |  |  |  | | --- | --- | | B. | President. |  |  |  | | --- | --- | | C. | Corporate Controller. |  |  |  | | --- | --- | | D. | Vice President of Finance. |  |  |  | | --- | --- | | E. | Corporate Treasurer. | |

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| 31. | Deciding whether or not to open a new store is part of the process known as:      |  |  | | --- | --- | | A. | Capital budgeting. |  |  |  | | --- | --- | | B. | Credit management. |  |  |  | | --- | --- | | C. | Capital structure. |  |  |  | | --- | --- | | D. | Cash management. |  |  |  | | --- | --- | | E. | Working capital management. | |

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| 32. | Capital structure refers to:      |  |  | | --- | --- | | A. | The amount of inventory held. |  |  |  | | --- | --- | | B. | The amount of cash on hand. |  |  |  | | --- | --- | | C. | The mixture of debt and equity. |  |  |  | | --- | --- | | D. | The accounts receivable policy. |  |  |  | | --- | --- | | E. | The management of Long-term investments. | |

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| 33. | Working capital management refers to:      |  |  | | --- | --- | | A. | The types of stock issued. |  |  |  | | --- | --- | | B. | The amount of Long-term debt. |  |  |  | | --- | --- | | C. | The mixture of debt and equity. |  |  |  | | --- | --- | | D. | The types of Long-term investments made. |  |  |  | | --- | --- | | E. | The levels of cash and inventory held. | |

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| 34. | A business that is a distinct legal entity is a:      |  |  | | --- | --- | | A. | Proprietorship. |  |  |  | | --- | --- | | B. | Partnership with only two partners. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | General partnership. |  |  |  | | --- | --- | | E. | Corporation. | |

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| 35. | The primary goal of financial management is to maximize the:      |  |  | | --- | --- | | A. | Growth rate of a firm. |  |  |  | | --- | --- | | B. | Compensation of the corporate officers. |  |  |  | | --- | --- | | C. | Current value of each share of outstanding stock. |  |  |  | | --- | --- | | D. | Number of shares of common stock outstanding. |  |  |  | | --- | --- | | E. | Book value of the firm. | |

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| 36. | A proxy fight is:      |  |  | | --- | --- | | A. | A method used by stockholders to replace corporate management. |  |  |  | | --- | --- | | B. | A means used to decrease the number of outstanding shares of stock. |  |  |  | | --- | --- | | C. | A normal part of a corporate merger. |  |  |  | | --- | --- | | D. | Used as a means of increasing the amount of dividends paid per share. |  |  |  | | --- | --- | | E. | Used as a means of issuing additional shares of common stock. | |

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| 37. | Suppliers, customers, and employees of a corporation are called:      |  |  | | --- | --- | | A. | Shareholders. |  |  |  | | --- | --- | | B. | Stakeholders. |  |  |  | | --- | --- | | C. | Debtors. |  |  |  | | --- | --- | | D. | Stockholders. |  |  |  | | --- | --- | | E. | Partners. | |

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| 38. | A proprietorship is:      |  |  | | --- | --- | | A. | A business formed by two or more individuals. |  |  |  | | --- | --- | | B. | A separate legal body formed by an individual who has limited personal liability. |  |  |  | | --- | --- | | C. | A business owned by an individual who has unlimited personal liability. |  |  |  | | --- | --- | | D. | A business managed by a single general partner. |  |  |  | | --- | --- | | E. | A limited liability form of business ownership. | |

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| 39. | Conflicts that arise between the interests of managers and stockholders are referred to as:      |  |  | | --- | --- | | A. | Control problems. |  |  |  | | --- | --- | | B. | Agency problems. |  |  |  | | --- | --- | | C. | Management conflicts. |  |  |  | | --- | --- | | D. | Stockholder conflicts. |  |  |  | | --- | --- | | E. | Proxy fights. | |

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| 40. | The primary market includes:      |  |  | | --- | --- | | A. | The purchase and sale of shares of stock between two shareholders. |  |  |  | | --- | --- | | B. | The sale of stock by a shareholder in the open market. |  |  |  | | --- | --- | | C. | The sale of stock by a shareholder in an auction market. |  |  |  | | --- | --- | | D. | The sale of new securities by a corporation on an exchange. |  |  |  | | --- | --- | | E. | The sale of stock by a shareholder in the OTC market. | |

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| 41. | Stocks that trade on an exchange are referred to as:      |  |  | | --- | --- | | A. | Primary stocks. |  |  |  | | --- | --- | | B. | Optioned stocks. |  |  |  | | --- | --- | | C. | SEC stocks. |  |  |  | | --- | --- | | D. | Privately held stocks. |  |  |  | | --- | --- | | E. | Listed stocks. | |

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| 42. | An individual who buys and sells stocks for his/her own account is a:      |  |  | | --- | --- | | A. | Dealer. |  |  |  | | --- | --- | | B. | Agent. |  |  |  | | --- | --- | | C. | Broker. |  |  |  | | --- | --- | | D. | Auctioneer. |  |  |  | | --- | --- | | E. | OTC broker. | |

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| 43. | Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?      |  |  | | --- | --- | | A. | The Corporate Treasurer. |  |  |  | | --- | --- | | B. | The Board of Directors. |  |  |  | | --- | --- | | C. | The Corporate Controller. |  |  |  | | --- | --- | | D. | The Chairman of the Board. |  |  |  | | --- | --- | | E. | The Vice President of Production. | |

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| 44. | The controller can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.      |  |  | | --- | --- | | A. | Cash balances. |  |  |  | | --- | --- | | B. | Capital expenditures. |  |  |  | | --- | --- | | C. | Production functions. |  |  |  | | --- | --- | | D. | Accounting functions. |  |  |  | | --- | --- | | E. | Financial planning. | |

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| 45. | The treasurer can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.      |  |  | | --- | --- | | A. | Tax matters. |  |  |  | | --- | --- | | B. | Data processing functions. |  |  |  | | --- | --- | | C. | Financial accounting. |  |  |  | | --- | --- | | D. | Cost accounting. |  |  |  | | --- | --- | | E. | Financial planning. | |

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| 46. | Capital budgeting is defined as the:      |  |  | | --- | --- | | A. | Mix of debt and equity used by a firm to finance its operations. |  |  |  | | --- | --- | | B. | Management of a firm's long-term investments. |  |  |  | | --- | --- | | C. | Process of determining the optimal types and amounts of inventory to keep on hand. |  |  |  | | --- | --- | | D. | Determination of the total amount of money which a firm should borrow. |  |  |  | | --- | --- | | E. | management of a firm's net working capital. | |

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| 47. | A firm's capital structure is defined:      |  |  | | --- | --- | | A. | As the combination of debt and equity used to finance the firm's operations. |  |  |  | | --- | --- | | B. | By the types of fixed assets the firm owns. |  |  |  | | --- | --- | | C. | As the mix of short-term and Long-term assets owned by the firm. |  |  |  | | --- | --- | | D. | As the amount of fixed assets needed to support every $1 in sales. |  |  |  | | --- | --- | | E. | By the nature of the product or service provided. | |

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| 48. | Working capital management refers specifically to:      |  |  | | --- | --- | | A. | Obtaining the necessary funds to finance a firm's daily activities. |  |  |  | | --- | --- | | B. | The daily use of a firm's fixed assets to generate revenue. |  |  |  | | --- | --- | | C. | The oversight of a firm's current accounts. |  |  |  | | --- | --- | | D. | The management of a firm's Loan accounts from financial institutions. |  |  |  | | --- | --- | | E. | The utilization of a firm's assets on a daily basis. | |

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| 49. | A sole proprietorship is best defined as a business owned by:      |  |  | | --- | --- | | A. | A single individual who has limited liability for the firm's debts. |  |  |  | | --- | --- | | B. | A single individual who has unlimited liability for the firm's debts. |  |  |  | | --- | --- | | C. | Individuals who enjoy limited liability. |  |  |  | | --- | --- | | D. | One or more individuals who have agreed to accept unlimited liability for the firm. |  |  |  | | --- | --- | | E. | An individual for less than ten years. | |

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| 50. | A general partnership is best defined as a business owned by:      |  |  | | --- | --- | | A. | A single individual who desires limited liability for the firm's debts. |  |  |  | | --- | --- | | B. | One or more individuals who are each totally responsible for the debts of the entity. |  |  |  | | --- | --- | | C. | Multiple individuals, 80 percent of whom enjoy limited liability. |  |  |  | | --- | --- | | D. | Two or more individuals, each of whom has limited liability for the firm's debts. |  |  |  | | --- | --- | | E. | Two or more individuals, only one of whom has unlimited liability for the firm's debts. | |

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| 51. | An entity wherein one or more owners may elect to actively manage the firm while other owners choose limited liability instead of management responsibility is called a:      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited liability corporation. |  |  |  | | --- | --- | | D. | Limited liability company. |  |  |  | | --- | --- | | E. | Limited partnership. | |

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| 52. | Bylaws are:      |  |  | | --- | --- | | A. | The terms by which partnership profits are distributed. |  |  |  | | --- | --- | | B. | The rules by which corporations govern themselves. |  |  |  | | --- | --- | | C. | The agreements specifying which partners are general partners and which are limited partners. |  |  |  | | --- | --- | | D. | The documents which set forth the business purpose of a firm. |  |  |  | | --- | --- | | E. | The documents which specify how tax liabilities will be allocated among the owners. | |

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| 53. | The agency problem is best defined as a conflict of interest between a firm's:      |  |  | | --- | --- | | A. | Various employees. |  |  |  | | --- | --- | | B. | Various managers. |  |  |  | | --- | --- | | C. | Managers and the firm's employees. |  |  |  | | --- | --- | | D. | Stockholders and the firm's managers. |  |  |  | | --- | --- | | E. | Stockholders and the firm's debtors. | |

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| 54. | The primary goal of financial management is defined as the:      |  |  | | --- | --- | | A. | Maximization of the current value per share of the outstanding stock. |  |  |  | | --- | --- | | B. | Maximization of the current profits per share of the firm. |  |  |  | | --- | --- | | C. | Minimization of the risks associated with company ownership. |  |  |  | | --- | --- | | D. | Maintenance of a steady stream of dividends to the existing shareholders. |  |  |  | | --- | --- | | E. | Minimization of the outstanding debt owed by the firm to third parties. | |

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| 55. | An agency problem is said to exist when there is a conflict of interest between \_\_\_\_\_ and \_\_\_\_\_.      |  |  | | --- | --- | | A. | An agent; his or her representative |  |  |  | | --- | --- | | B. | A broker; a dealer |  |  |  | | --- | --- | | C. | A principal; his or her agent |  |  |  | | --- | --- | | D. | One shareholder; another shareholder |  |  |  | | --- | --- | | E. | A shareholder; a stakeholder | |

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| 56. | The primary market is defined as the market:      |  |  | | --- | --- | | A. | Wherein the original sale of securities by the issuer to the general public occurs. |  |  |  | | --- | --- | | B. | Where stocks and bonds are exchanged between dealers. |  |  |  | | --- | --- | | C. | Mechanism by which a sale of a financial instrument between two shareholders is conducted. |  |  |  | | --- | --- | | D. | Operated by brokers for the benefit of shareholders. |  |  |  | | --- | --- | | E. | Commonly known as the over-the-counter market. | |

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| 57. | The secondary market is the market wherein:      |  |  | | --- | --- | | A. | One issuer exchanges securities directly with another issuer. |  |  |  | | --- | --- | | B. | The government is either the buyer or the seller of the security. |  |  |  | | --- | --- | | C. | Shareholders buy from and sell to other shareholders. |  |  |  | | --- | --- | | D. | The security issuer is the seller and the buyer is a member of the general public. |  |  |  | | --- | --- | | E. | The security issuer is the buyer and the seller is a member of the general public. | |

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| 58. | A dealer is a person who:      |  |  | | --- | --- | | A. | Conducts a trade on behalf of another individual. |  |  |  | | --- | --- | | B. | Buys and sells but does not own the commodity being bought or sold. |  |  |  | | --- | --- | | C. | Buys and sells on behalf of the original issuer of the commodity being bought or sold. |  |  |  | | --- | --- | | D. | Buys and sells for themselves, at their own risk. |  |  |  | | --- | --- | | E. | Buys and sells strictly on the trading floor of an exchange. | |

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| 59. | The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:      |  |  | | --- | --- | | A. | Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Controller. |  |  |  | | --- | --- | | D. | Chairman of the board. |  |  |  | | --- | --- | | E. | Chief executive officer. | |

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| 60. | The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:      |  |  | | --- | --- | | A. | Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Controller. |  |  |  | | --- | --- | | D. | Chairman of the board. |  |  |  | | --- | --- | | E. | Chief operations officer. | |

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| 61. | The process of planning and managing a firm's long-term investments is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 62. | The mixture of debt and equity used by a firm to finance its operations is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 63. | The management of a firm's short-term assets and liabilities is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Debt management. |  |  |  | | --- | --- | | C. | Equity management. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| 64. | Which one of the following correctly defines the chain of command in a typical corporate organizational structure?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | B. | The chief executive officer reports to the board of directors. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The chief operations officer reports to the vice president of production. | |

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| 65. | A business formed by two or more individuals who each have unlimited liability for business debts is called a:      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | General partnership. |  |  |  | | --- | --- | | D. | Limited partnership. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| 66. | The division of profits and losses among the members of a partnership is formalized in the:      |  |  | | --- | --- | | A. | Indemnity clause. |  |  |  | | --- | --- | | B. | Indenture contract. |  |  |  | | --- | --- | | C. | Statement of purpose. |  |  |  | | --- | --- | | D. | Partnership agreement. |  |  |  | | --- | --- | | E. | Group charter. | |

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| 67. | A business created as a distinct legal entity composed of one or more individuals or entities is called a:      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | General partnership. |  |  |  | | --- | --- | | D. | Limited partnership. |  |  |  | | --- | --- | | E. | Unlimited liability company. | |

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| 68. | The corporate document that sets forth the business purpose of a firm is the:      |  |  | | --- | --- | | A. | Indenture contract. |  |  |  | | --- | --- | | B. | Provincial tax agreement. |  |  |  | | --- | --- | | C. | Corporate bylaws. |  |  |  | | --- | --- | | D. | Corporate charter. |  |  |  | | --- | --- | | E. | Articles of incorporation. | |

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| 69. | Capital structure decisions include which of the following?      |  |  | | --- | --- | | A. | Determining the number of shares of stock to issue |  |  |  | | --- | --- | | B. | Determining whether the firm should purchase or lease some equipment |  |  |  | | --- | --- | | C. | Allocating funds to the various divisions within the firm |  |  |  | | --- | --- | | D. | Evaluating the size of inventory to be kept on hand |  |  |  | | --- | --- | | E. | Evaluating the customer credit policy | |

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| 70. | The decision to issue debt rather than additional shares of stock is an example of:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | A net working capital decision. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | A controller's duties. |  |  |  | | --- | --- | | E. | The capital structure decision | |

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| 71. | A conflict of interest between the stockholders and management of a firm is called:      |  |  | | --- | --- | | A. | Stockholders' liability. |  |  |  | | --- | --- | | B. | Corporate breakdown. |  |  |  | | --- | --- | | C. | The agency problem. |  |  |  | | --- | --- | | D. | Corporate activism. |  |  |  | | --- | --- | | E. | Legal liability. | |

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| 72. | A stakeholder is:      |  |  | | --- | --- | | A. | Any person or entity that owns shares of stock of a corporation. |  |  |  | | --- | --- | | B. | Any person or entity that has voting rights based on stock ownership of a corporation. |  |  |  | | --- | --- | | C. | A person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock. |  |  |  | | --- | --- | | D. | A creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm. |  |  |  | | --- | --- | | E. | Any person or entity who potentially has a claim on the cash flows of the firm. | |

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| 73. | The original sale of securities by governments and corporations to the general public occurs in the:      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Private placement market. |  |  |  | | --- | --- | | D. | Proprietary market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 74. | When one shareholder sells stock directly to another the transaction is said to occur in the:      |  |  | | --- | --- | | A. | Dealer market. |  |  |  | | --- | --- | | B. | Primary market. |  |  |  | | --- | --- | | C. | Secondary market. |  |  |  | | --- | --- | | D. | OTC market. |  |  |  | | --- | --- | | E. | TSX market. | |

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| 75. | A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 76. | A market where trading takes place directly between buyers and sellers is called a(n):      |  |  | | --- | --- | | A. | primary market. |  |  |  | | --- | --- | | B. | OTC market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| 77. | This of the following is an answer to "What are the duties of a financial manager?"  I. Deciding how much interest to pay the holders of the corporation's bonds. II. Deciding the mix of long-term debt and equity. III. Deciding which projects a firm should undertake. IV. Deciding how much short-term debt to use.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I, II, and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 78. | A financial manager is responsible for deciding whether or not new manufacturing equipment should be purchased to replace existing equipment. The new equipment would reduce labour expenses and would allow the firm to reduce its investment in inventory. Which of the financial management areas would be involved in the decision process?  I. Capital budgeting. II. Capital structure management. III. Working capital management.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 79. | According to the statement of financial position model of the firm, corporate finance may be thought of as the analysis of three primary subject areas. Which of the following correctly lists these areas?      |  |  | | --- | --- | | A. | Capital structure, capital budgeting, security analysis. |  |  |  | | --- | --- | | B. | Capital budgeting, capital structure, capital spending. |  |  |  | | --- | --- | | C. | Capital budgeting, capital structure, net working capital. |  |  |  | | --- | --- | | D. | Capital structure, net working capital, capital rationing. |  |  |  | | --- | --- | | E. | Capital budgeting, capital spending, net working capital. | |

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| 80. | Which of the following is NOT considered one of the basic questions of corporate finance?      |  |  | | --- | --- | | A. | What long-term investments should the firm choose? |  |  |  | | --- | --- | | B. | At what rate of interest should a firm borrow? |  |  |  | | --- | --- | | C. | Where will the firm get the long-term financing to pay for its investments? |  |  |  | | --- | --- | | D. | What mixture of debt and equity should the firm use to fund its operations? |  |  |  | | --- | --- | | E. | How should the firm manage its working capital, i.e., its everyday financial activities? | |

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| 81. | In the evaluation of cash flow in a capital budgeting decision, which of the following must be considered?  I. The size of the cash flow. II. The timing of the cash flow. III. The risk of the cash flow.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | I, II, III | |

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| 82. | Which of the following combinations of attributes would make a capital expenditure project desirable to a financial manager?  I. The project is worth more to the firm than the cost to acquire it. II. The value of the cash flow generated by the project exceeds the project's cost. III. The project's cash flows have acceptable levels of risk and size, but not timing.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 83. | The term capital structure describes:      |  |  | | --- | --- | | A. | The mixture of debt and equity a firm uses to finance its operations. |  |  |  | | --- | --- | | B. | The mixture of long-term investments a firm has made. |  |  |  | | --- | --- | | C. | The mix of preferred stock and common stock that makes up the equity account of a firm. |  |  |  | | --- | --- | | D. | The firm's short-term assets and short-term liabilities. |  |  |  | | --- | --- | | E. | The mixture of short-term liabilities a firm uses to finance its short-term assets. | |

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| 84. | A financial manager is responsible for determining the firm's appropriate level of inventory. Which of the financial management areas addresses this decision?  I. Capital budgeting. II. Capital structure management. III. Working capital management.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | III only |  |  |  | | --- | --- | | D. | I and II only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 85. | Which of the following statements is/are false concerning partnerships?  I. Limited partners are responsible for all debts of the partnership. II. Limited partners generally do not manage the partnership. III. In a limited partnership, all partners share equally in the gains or losses.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 86. | Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?      |  |  | | --- | --- | | A. | The owners of the corporation have unlimited liability for the firm's debts. |  |  |  | | --- | --- | | B. | It is the simplest to start. |  |  |  | | --- | --- | | C. | The corporation has an unlimited life. |  |  |  | | --- | --- | | D. | Dividends received by the corporation's shareholders are tax-exempt. |  |  |  | | --- | --- | | E. | It is more difficult to transfer ownership in a corporation. | |

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| 87. | Which of the following is a true statement concerning corporations?      |  |  | | --- | --- | | A. | The equity that can be raised by the corporation is limited to the current shareholders' personal wealth. |  |  |  | | --- | --- | | B. | The life of the corporation is unlimited. |  |  |  | | --- | --- | | C. | The corporation has limited liability for business debts. |  |  |  | | --- | --- | | D. | When dividends are paid, corporate profits are taxed once. |  |  |  | | --- | --- | | E. | It is difficult to transfer ownership of corporate shares. | |

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| 88. | Sue Folker wants to start a new business decommissioning nuclear warheads and reactors. The work will involve significant hazards, and Sue is concerned about protecting her personal wealth from any losses the business might incur. If she is to be the majority owner of the business how should she structure it?      |  |  | | --- | --- | | A. | As a corporation. |  |  |  | | --- | --- | | B. | As a general partnership. |  |  |  | | --- | --- | | C. | As a limited partnership. |  |  |  | | --- | --- | | D. | As a sole proprietorship. |  |  |  | | --- | --- | | E. | As a real estate investment trust. | |

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| 89. | Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | Corporation. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | Limited liability company. | |

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| 90. | Which of the following is a true statement concerning a general partnership?  I. Partners are not responsible for the debts of the partnership. II. Partners generally do not manage the partnership. III. The income of a partnership is taxed at the partners' income tax rate.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | III only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 91. | The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?  I. Sole proprietorship. II. Partnership. III. Corporation.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | III only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | II and III only | |

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| 92. | Which of the following is considered a benefit of the corporate form of organization?  I. Ease of the transfer of ownership. II. Limited life. III. Double taxation.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 93. | A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can lose, at most, what she has already invested in a firm.  I. Common stockholder. II. Limited partner. III. General partner. IV. Sole proprietor.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | II and III only | |

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| 94. | When does the double taxation problem faced by corporations exist?      |  |  | | --- | --- | | A. | Whenever a corporation earns a profit, pays taxes on that profit, and then pays interest to its bondholders. |  |  |  | | --- | --- | | B. | Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its stockholders who pay personal taxes. |  |  |  | | --- | --- | | C. | Whenever a corporation earns a profit and pays taxes on that profit. |  |  |  | | --- | --- | | D. | Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its tax-exempt shareholders. |  |  |  | | --- | --- | | E. | Whenever stockholders are paid a dividend and are taxed on that dividend income. | |

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| 95. | Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?      |  |  | | --- | --- | | A. | Maximize sales. |  |  |  | | --- | --- | | B. | Maximize profits. |  |  |  | | --- | --- | | C. | Avoid financial distress. |  |  |  | | --- | --- | | D. | Maintain steady earnings growth. |  |  |  | | --- | --- | | E. | Maximize the current value per share of the existing stock. | |

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| 96. | A financial manager of a corporation is considering different operating strategies for the coming year. From a financial management standpoint, which of the following would be her optimal strategy?      |  |  | | --- | --- | | A. | Undertake the plan that would reduce the overall riskiness of the firm. |  |  |  | | --- | --- | | B. | Undertake the plan that would maximize the current stock price. |  |  |  | | --- | --- | | C. | Undertake the plan that would result in the largest profits for the year. |  |  |  | | --- | --- | | D. | Undertake the plan that would maximize her personal wealth. |  |  |  | | --- | --- | | E. | Undertake the plan that would lead to the most stable stock price for the year. | |

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| 97. | The total market value of the firm's equity is determined by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | The corporate treasurer. |  |  |  | | --- | --- | | B. | The firm's financial manager. |  |  |  | | --- | --- | | C. | The firm's stakeholders. |  |  |  | | --- | --- | | D. | The firm's stockholders. |  |  |  | | --- | --- | | E. | Regulatory authorities. | |

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| 98. | Which of the following is a type of agency cost?      |  |  | | --- | --- | | A. | The cost of an audit of the firm's financial statements. |  |  |  | | --- | --- | | B. | The cost of a corporate jet needed to keep tabs on foreign operations. |  |  |  | | --- | --- | | C. | Salaries paid to the firm's managers. |  |  |  | | --- | --- | | D. | The costs of financing the firm. |  |  |  | | --- | --- | | E. | The cost of buying insurance on the firm's assets. | |

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| 99. | Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate the purchase price. Identify the parties to this transaction.      |  |  | | --- | --- | | A. | Mary is the principal and Ann is the agent. |  |  |  | | --- | --- | | B. | Ted is the principal and Ann is the agent. |  |  |  | | --- | --- | | C. | Mary is the agent while Ted and Ann together are principals. |  |  |  | | --- | --- | | D. | Ann is the principal and Mary is the agent. |  |  |  | | --- | --- | | E. | Ann is the principal and Ted is the agent. | |

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| 100. | The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly,      |  |  | | --- | --- | | A. | The firm may incur some agency costs since the manager will be focused on the market share of the firm rather than acting to maximize earnings. |  |  |  | | --- | --- | | B. | The financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives. |  |  |  | | --- | --- | | C. | This arrangement may be unnecessary, since the goal of the firm is to maximize earnings for shareholders, and that is most likely accomplished through larger market share. |  |  |  | | --- | --- | | D. | The manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders. |  |  |  | | --- | --- | | E. | The firm will incur some agency costs if the manager acts to maximize market share. | |

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| 101. | Which of the following is/are correct regarding agency costs?  I. Indirect costs occur when managers, acting to minimize the risk of the firm, forego investments shareholders would prefer they take. II. Direct costs occur when shareholders must incur costs to monitor the manager's actions. III. Direct costs occur when managers buy assets considered unnecessary by the firm's owners.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 102. | Of the following, which statement regarding agency costs is false?      |  |  | | --- | --- | | A. | An agency problem exists when there is a conflict of interest between the stockholders and management of a firm. |  |  |  | | --- | --- | | B. | An agency problem exists when there is a conflict of interest between a principal and an agent. |  |  |  | | --- | --- | | C. | An indirect agency cost occurs when firm management avoids risky projects that would favourably affect the stock price because the managers are worried about keeping their jobs. |  |  |  | | --- | --- | | D. | A corporate expenditure that benefits stockholders but harms management is an agency cost. |  |  |  | | --- | --- | | E. | If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management. | |

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| 103. | Which of the following help ensure managers act in the best interest of owners?  I. A compensation package for managers that ties their salary to the firm's share price. II. Managers are promoted only if the firm prospers. III. The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management. IV. There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, III, and IV only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 104. | Which of the following is a true statement concerning the economics of ethical decision-making?  I. The higher the probability of detection, the more likely that one will cheat. II. The higher the sanctions imposed if detected, the less likely one is to cheat. III. The expected costs of unethical behaviour are lower if information about cheating is rapidly and widely distributed.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 105. | Which of the following markets is considered a dealer market?      |  |  | | --- | --- | | A. | The Toronto Stock Exchange. |  |  |  | | --- | --- | | B. | The over-the-counter (OTC) Market. |  |  |  | | --- | --- | | C. | The real estate market. |  |  |  | | --- | --- | | D. | New York Stock Exchange. |  |  |  | | --- | --- | | E. | The Ontario Securities Commission. | |

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| 106. | You are interested in purchasing 100 shares of stock in one of the largest corporations in the Canada. You would most likely purchase the shares in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | A secondary market operated as an auction market. |  |  |  | | --- | --- | | B. | A primary market operated as an auction market. |  |  |  | | --- | --- | | C. | A secondary market operated as a dealer market. |  |  |  | | --- | --- | | D. | A primary market operated as a dealer market. |  |  |  | | --- | --- | | E. | A secondary market operated as a money market. | |

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| 107. | Which of the following does NOT correctly finish this sentence: In Canada, \_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | The OTC market does not have a central location |  |  |  | | --- | --- | | B. | Over-the-counter markets are operated as auction markets |  |  |  | | --- | --- | | C. | Financial markets function as both primary and secondary markets for debt and equity securities |  |  |  | | --- | --- | | D. | New issues of securities occur in primary markets |  |  |  | | --- | --- | | E. | Auction markets have a physical location | |

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| 108. | Which of the following is NOT a general criterion that must be met in order for a firm to be listed on the TSX?      |  |  | | --- | --- | | A. | The firm must have a minimum number of shareholders owning at least 100 shares. |  |  |  | | --- | --- | | B. | The firm must have a minimum number of shares outstanding. |  |  |  | | --- | --- | | C. | The firm must have a minimum market value. |  |  |  | | --- | --- | | D. | The firm must have a minimum number of directors. |  |  |  | | --- | --- | | E. | The firm must have a minimum amount of assets. | |

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| 109. | Which of the following would be considered a primary market transaction?      |  |  | | --- | --- | | A. | A buy order to an investment banker for a new public stock offering |  |  |  | | --- | --- | | B. | A buy order to a broker for shares of a company on the TSX |  |  |  | | --- | --- | | C. | A buy order to a broker for shares of a company on the Venture Exchange |  |  |  | | --- | --- | | D. | A buy order to a dealer for shares of a company OTC |  |  |  | | --- | --- | | E. | A sell order to a broker for a stock listed on the TSX | |

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| 110. | Which of the following is considered a "primary market" transaction?  I. You buy shares in the public offering of a start-up company in the computer industry. II. Your mother sells you the shares she purchased in your uncle's latest business venture. III. You buy shares in Nortel Networks from your closest friend.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 111. | A(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a sale of securities which typically does not require registration with the OSC.      |  |  | | --- | --- | | A. | Initial public offering. |  |  |  | | --- | --- | | B. | Over-the-counter transaction. |  |  |  | | --- | --- | | C. | Primary market transaction. |  |  |  | | --- | --- | | D. | Secondary market transaction. |  |  |  | | --- | --- | | E. | Private placement. | |

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| 112. | Which of the following would be considered a secondary market transaction?      |  |  | | --- | --- | | A. | Buy or sell orders to a broker for shares listed on the TSX. |  |  |  | | --- | --- | | B. | Buy or sell orders to a broker for shares listed on the NYSE. |  |  |  | | --- | --- | | C. | Buy or sell orders for the purchase of bonds in the over-the-counter market. |  |  |  | | --- | --- | | D. | A, B & C. |  |  |  | | --- | --- | | E. | A & C. | |

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| 113. | On a typical day in Canada, the largest dollar volume of shares are traded \_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Over the counter. |  |  |  | | --- | --- | | B. | On the TSX. |  |  |  | | --- | --- | | C. | On the Venture Exchange. |  |  |  | | --- | --- | | D. | On the NYSE. |  |  |  | | --- | --- | | E. | In primary markets. | |

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| 114. | Which of the following is considered a primary market transaction?      |  |  | | --- | --- | | A. | A firm sells stock to the public for the first time in an IPO. |  |  |  | | --- | --- | | B. | An investor buys stock in Chrysler Canada from his buddy. |  |  |  | | --- | --- | | C. | Chrysler Canada's stockholders sell some of their shares to Kirk Kirkorian, another investor. |  |  |  | | --- | --- | | D. | On September 25, 1995, 30.8 million shares of stock changed hands on the TSX. |  |  |  | | --- | --- | | E. | Labatt's just announced what their upcoming quarterly dividend payment will be. | |

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| 115. | By which of the following methods do chartered banks generate income?  I. From the spread between interest paid on deposits and interest earned on loans. II. From selling life insurance through their branch networks. III. From services provided to corporate clients such as bank guarantees.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| 116. | Which of the following is not a Canadian financial institution?      |  |  | | --- | --- | | A. | Trust companies. |  |  |  | | --- | --- | | B. | Provincial governments. |  |  |  | | --- | --- | | C. | Mutual funds. |  |  |  | | --- | --- | | D. | Investment dealers. |  |  |  | | --- | --- | | E. | Chartered banks. | |

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| 117. | The size, risk, and timing of future cash flows are the key elements evaluated in the:      |  |  | | --- | --- | | A. | Capital budgeting process. |  |  |  | | --- | --- | | B. | Cash management process. |  |  |  | | --- | --- | | C. | Analysis of working capital. |  |  |  | | --- | --- | | D. | Capital structure decision. |  |  |  | | --- | --- | | E. | Analysis of current assets. | |

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| 118. | Capital structure refers to which of the following issues?  I. From whom should the firm borrow funds? II. How much debt should the firm have in relation to its level of equity? III. What level of current assets is required to maintain the firm's operational level? IV. How much risk is associated with the future cash flows of a project?      |  |  | | --- | --- | | A. | II only |  |  |  | | --- | --- | | B. | III only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, and IV only | |

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| 119. | Working capital management is concerned with which statement of financial position accounts?      |  |  | | --- | --- | | A. | Current assets only. |  |  |  | | --- | --- | | B. | Current and long-term assets only. |  |  |  | | --- | --- | | C. | Long-term assets only. |  |  |  | | --- | --- | | D. | Current assets and current liabilities only. |  |  |  | | --- | --- | | E. | Current assets, long-term assets and current liabilities only. | |

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| 120. | Which one of the following statements concerning a proprietorship is true?      |  |  | | --- | --- | | A. | A proprietorship can be a business jointly owned by two family members. |  |  |  | | --- | --- | | B. | Income from a proprietorship is taxed as a separate entity. |  |  |  | | --- | --- | | C. | A proprietor is personally responsible for 100% of the firm's liabilities. |  |  |  | | --- | --- | | D. | A partial transfer of ownership is easier with a proprietorship than with a corporation. |  |  |  | | --- | --- | | E. | Income from a proprietorship is taxed at a lower rate than other personal income. | |

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| 121. | Which one of the following statements concerning a partnership is true?      |  |  | | --- | --- | | A. | Under a general partnership, only the key partner is personally liable for the business debts. |  |  |  | | --- | --- | | B. | Limited partners in a limited partnership should be actively involved in management decisions. |  |  |  | | --- | --- | | C. | Income from a limited partnership is taxed as corporate income. |  |  |  | | --- | --- | | D. | A primary advantage of a partnership is the ease of transferring ownership. |  |  |  | | --- | --- | | E. | A partnership terminates at the death of any partner. | |

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| 122. | It is easiest to raise capital for a project under which form of business organization?      |  |  | | --- | --- | | A. | Corporation |  |  |  | | --- | --- | | B. | General partnership |  |  |  | | --- | --- | | C. | Limited partnership |  |  |  | | --- | --- | | D. | Sole proprietorship |  |  |  | | --- | --- | | E. | The form of business organization does NOT affect the ability to raise capital. | |

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| 123. | The ultimate responsibility for a corporation rests with:      |  |  | | --- | --- | | A. | The Chairman of the Board. |  |  |  | | --- | --- | | B. | The Board of Directors. |  |  |  | | --- | --- | | C. | The Chief Operations Officer. |  |  |  | | --- | --- | | D. | The stockholders. |  |  |  | | --- | --- | | E. | The stakeholders. | |

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| 124. | When a corporation issues additional shares of common stock, they do so:      |  |  | | --- | --- | | A. | In the primary market. |  |  |  | | --- | --- | | B. | Through a dealer in the secondary market. |  |  |  | | --- | --- | | C. | Through a broker in the secondary market. |  |  |  | | --- | --- | | D. | Only through the OTC market. |  |  |  | | --- | --- | | E. | Only through the private markets. | |

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| 125. | Which one of the following statements is true concerning stock exchanges?      |  |  | | --- | --- | | A. | The Toronto Stock Exchange is the largest exchange in the world. |  |  |  | | --- | --- | | B. | NASDAQ listed stocks trade more actively than those listed on the NYSE. |  |  |  | | --- | --- | | C. | The OTC market is physically located in Toronto. |  |  |  | | --- | --- | | D. | The Tokyo Stock Exchange is not a very actively traded upon exchange. |  |  |  | | --- | --- | | E. | The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks. | |

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| 126. | Which of the following statements concerning dealers are true?  I. Dealers usually buy and sell only for themselves. II. Dealers accept the risks of owning shares of stock. III. The OTC market is a dealer market. IV. Most debt securities trade in dealer markets.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 127. | Which of the following statements concerning auction markets are true?  I. The TSX is an auction market. II. The OTC is an auction market. III. The NYSE is an auction market. IV. Auction markets have a physical location.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | D. | I, III, and IV only |  |  |  | | --- | --- | | E. | I, II, and III only | |

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| 128. | Which one of the following statements is correct concerning the listing of stock on an exchange?      |  |  | | --- | --- | | A. | The TSX has the most stringent listing requirements of any Canadian stock exchange. |  |  |  | | --- | --- | | B. | Any firm can list their stock on any exchange they desire. |  |  |  | | --- | --- | | C. | All exchanges have the same listing requirements. |  |  |  | | --- | --- | | D. | Listing requirements are established by the Ontario Securities Commission. |  |  |  | | --- | --- | | E. | The number of shareholders is NOT a listing consideration for a stock. | |

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| 129. | Which of the following is a disadvantage of the corporate form of ownership?      |  |  | | --- | --- | | A. | Limited liability |  |  |  | | --- | --- | | B. | Ease of transfer of ownership |  |  |  | | --- | --- | | C. | Taxation |  |  |  | | --- | --- | | D. | Ability to raise capital |  |  |  | | --- | --- | | E. | The life of the corporation | |

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| 130. | Which of the following are capital structure decisions?  I. Determining the amount of money to borrow in order to finance a 10-year project II. Determining the number of shares of common stock to issue III. Determining when a supplier should be paid IV. Establishing the accounts receivable policies      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | III and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 131. | Which of the following are working capital decisions?  I. Determining the level of inventory to be kept on hand II. Determining if a supplier's credit terms are acceptable III. Establishing the accounts receivable payment terms IV. Deciding if a new project should be accepted      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | III and IV only | |

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| 132. | The Treasurer:      |  |  | | --- | --- | | A. | Is responsible for overseeing the data processing functions within a firm. |  |  |  | | --- | --- | | B. | Has the responsibility for managing the cash for an organization. |  |  |  | | --- | --- | | C. | Must keep current on tax laws since he/she is responsible for managing the taxes for a firm. |  |  |  | | --- | --- | | D. | Must file quarterly financial statements in a timely manner. |  |  |  | | --- | --- | | E. | Reports directly to the Chief Executive Officer of a corporation. | |

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| 133. | Financial managers must be concerned with which of the following aspects of cash flows?  I. Amount of the cash flow II. Timing of the cash flow III. Likelihood of the cash flow being received IV. Possibility that only a portion of the expected cash flow will be received      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | II, III, and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 134. | Ensuring that a firm has sufficient cash available on a daily basis is part of:      |  |  | | --- | --- | | A. | Capital budgeting. |  |  |  | | --- | --- | | B. | Working capital management. |  |  |  | | --- | --- | | C. | Business organization. |  |  |  | | --- | --- | | D. | Capital structure. |  |  |  | | --- | --- | | E. | Organizational structure. | |

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| 135. | Two of the primary advantages of a sole proprietorship are the:      |  |  | | --- | --- | | A. | Ease of company formation and limited liability. |  |  |  | | --- | --- | | B. | Ease of company formation and less regulation. |  |  |  | | --- | --- | | C. | Ease of ownership transfer and less regulation. |  |  |  | | --- | --- | | D. | Ease of ownership transfer and ease of company formation. |  |  |  | | --- | --- | | E. | Ability to raise capital and less regulation. | |

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| 136. | In a limited partnership:      |  |  | | --- | --- | | A. | Only the limited partners are involved in the daily management of the firm. |  |  |  | | --- | --- | | B. | Both general and limited partners are involved in the daily management of the firm. |  |  |  | | --- | --- | | C. | A limited partner is liable only for the amount he/she contributed to the partnership. |  |  |  | | --- | --- | | D. | A general partner is liable only for the amount he/she contributed to the partnership. |  |  |  | | --- | --- | | E. | The income earned is taxed like a corporation. | |

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| 137. | In a general partnership:      |  |  | | --- | --- | | A. | Each partner is personally responsible for all of the firm's debt. |  |  |  | | --- | --- | | B. | Each partner is responsible only for his/her portion of the firm's debt based on ownership percentage. |  |  |  | | --- | --- | | C. | Each partner is liable only for the portion of the total debt he/she agreed in writing to pay. |  |  |  | | --- | --- | | D. | Only the general partner is liable for the firm's debt. |  |  |  | | --- | --- | | E. | None of the partners are personally liable for the firm's debt. | |

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| 138. | Which of the following are disadvantages of the partnership form of ownership?      |  |  | | --- | --- | | A. | Personal liability and double taxation |  |  |  | | --- | --- | | B. | Personal liability and limited firm life |  |  |  | | --- | --- | | C. | Double taxation and limited firm life |  |  |  | | --- | --- | | D. | Ease of formation and unlimited firm life |  |  |  | | --- | --- | | E. | Ease of formation and ease of ownership transfer | |

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| 139. | Which of the following are advantages of the corporate form of ownership?      |  |  | | --- | --- | | A. | Limited personal liability and limited firm life |  |  |  | | --- | --- | | B. | Ability to raise capital and limited firm life |  |  |  | | --- | --- | | C. | Limited personal liability and ability to raise capital |  |  |  | | --- | --- | | D. | Ease of ownership transfer and simplicity of company formation |  |  |  | | --- | --- | | E. | Simplicity of company formation and the ability to raise capital | |

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| 140. | Which one of the following actions best meets the goal of financial management?      |  |  | | --- | --- | | A. | Deciding a firm should be 100% equity financed |  |  |  | | --- | --- | | B. | Delaying cash payments in order to increase the total cash on hand |  |  |  | | --- | --- | | C. | Easing the accounts receivable policies in order to increase current sales |  |  |  | | --- | --- | | D. | Accepting a project that enhances the current market value of the firm's stock |  |  |  | | --- | --- | | E. | Issuing additional shares of stock to increase the total cash on hand | |

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| 141. | Which one of the following actions is the best example of an agency problem?      |  |  | | --- | --- | | A. | Paying management bonuses based on the number of store locations opened during the year |  |  |  | | --- | --- | | B. | Paying management bonuses based on the current market value of the firm's stock |  |  |  | | --- | --- | | C. | Accepting a project that enhances both management salaries and the market value of the firm's stock |  |  |  | | --- | --- | | D. | Requiring stockholders approval of all management compensation decisions |  |  |  | | --- | --- | | E. | Basing management bonuses on the attainment of specific financial goals | |

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| 142. | Which one of the following means of management compensation is designed to help eliminate the agency problem?      |  |  | | --- | --- | | A. | Providing cost of living adjustments |  |  |  | | --- | --- | | B. | Increasing health care benefits |  |  |  | | --- | --- | | C. | Offering stock options |  |  |  | | --- | --- | | D. | Providing annual raises |  |  |  | | --- | --- | | E. | Providing a corporate jet | |

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| 143. | The primary purpose of an auction market is to:      |  |  | | --- | --- | | A. | Offer new shares of stock to the general public. |  |  |  | | --- | --- | | B. | Handle private placements of shares of stock. |  |  |  | | --- | --- | | C. | Provide a market place for dealers. |  |  |  | | --- | --- | | D. | Provide electronic trading for dealers. |  |  |  | | --- | --- | | E. | Match buyers with sellers. | |

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| 144. | The primary purpose of capital budgeting is to:      |  |  | | --- | --- | | A. | Determine the amount of cash and inventory to keep on hand. |  |  |  | | --- | --- | | B. | Estimate the initial cost of a project. |  |  |  | | --- | --- | | C. | Distinguish projects that have at least a five-year life from those that don't. |  |  |  | | --- | --- | | D. | Determine the risk level of a project. |  |  |  | | --- | --- | | E. | Identify projects that produce cash flows that exceed the cost of the project. | |

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| 145. | An individual who places an order to buy 1000 shares of IBM stock:      |  |  | | --- | --- | | A. | Is involved in a private placement of securities. |  |  |  | | --- | --- | | B. | Is most likely involved in an IPO. |  |  |  | | --- | --- | | C. | Is most likely participating in the secondary market. |  |  |  | | --- | --- | | D. | Must have hired a dealer to perform this transaction. |  |  |  | | --- | --- | | E. | Has to be listed as a private dealer. | |

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| 146. | Stockholders elect:      |  |  | | --- | --- | | A. | The Chief Executive Officer. |  |  |  | | --- | --- | | B. | The Corporate Directors. |  |  |  | | --- | --- | | C. | The Chairman of the Board. |  |  |  | | --- | --- | | D. | The President. |  |  |  | | --- | --- | | E. | All senior managers. | |

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| 147. | Which one of the following questions would most likely be the responsibility of the financial manager?      |  |  | | --- | --- | | A. | Which product markets should be expanded? |  |  |  | | --- | --- | | B. | What price should be charged for a new product? |  |  |  | | --- | --- | | C. | Which employees should work overtime? |  |  |  | | --- | --- | | D. | How should the firm finance a new distribution center? |  |  |  | | --- | --- | | E. | Where should a new store be located? | |

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| 148. | The treasurer of a firm is most apt to report to the:      |  |  | | --- | --- | | A. | controller. |  |  |  | | --- | --- | | B. | President. |  |  |  | | --- | --- | | C. | Chief operating officer. |  |  |  | | --- | --- | | D. | Chief executive officer. |  |  |  | | --- | --- | | E. | Vice president of finance. | |

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| 149. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | Ascertaining the optimal level of inventory |  |  |  | | --- | --- | | B. | Determining which bank has the best loan terms |  |  |  | | --- | --- | | C. | Evaluating the minimal amount of cash which the firm should keep on hand |  |  |  | | --- | --- | | D. | Deciding whether or not the firm should open another retail outlet |  |  |  | | --- | --- | | E. | Establishing the length of time for which store credit will be offered | |

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| 150. | Which of the following should be considered when making a capital budgeting decision?  I. The amount of cash flows which will be required or obtained II. The timing of all cash inflows and outflows III. The amount of debt versus the amount of equity which should be obtained IV. The risk associated with the expected cash inflows      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | II and IV only |  |  |  | | --- | --- | | E. | I, II, and IV only | |

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| 151. | Luis has just decided that his firm should obtain $10 million in bank financing from the Atlantic Bank and Trust and should issue $25 million in new equity shares. Luis has just made a(n) \_\_\_\_\_ decision.      |  |  | | --- | --- | | A. | Working capital |  |  |  | | --- | --- | | B. | Capital structure |  |  |  | | --- | --- | | C. | Operational |  |  |  | | --- | --- | | D. | Capital budgeting |  |  |  | | --- | --- | | E. | Marketing | |

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| 152. | Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing $.40 for every $1 invested by shareholders. Mr. Webster was referring to the \_\_\_\_\_ policy of the firm.      |  |  | | --- | --- | | A. | Capital budgeting |  |  |  | | --- | --- | | B. | Working capital |  |  |  | | --- | --- | | C. | Capital structure |  |  |  | | --- | --- | | D. | Capital investment |  |  |  | | --- | --- | | E. | Financial planning | |

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| 153. | Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for:      |  |  | | --- | --- | | A. | Allocating manufacturing overhead. |  |  |  | | --- | --- | | B. | Controlling labour costs. |  |  |  | | --- | --- | | C. | Pricing manufactured goods. |  |  |  | | --- | --- | | D. | Managing long-term debt. |  |  |  | | --- | --- | | E. | Overseeing accounts payable. | |

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| 154. | Working capital management:      |  |  | | --- | --- | | A. | Includes the daily oversight of a firm's cash requirements. |  |  |  | | --- | --- | | B. | Involves the determination of how much long-term debt should be issued. |  |  |  | | --- | --- | | C. | Is the oversight of a firm's long-term assets. |  |  |  | | --- | --- | | D. | Deals with the refinancing of the firm's debt if interest rates decline. |  |  |  | | --- | --- | | E. | Deals with the allocation of equipment to various jobs on a daily basis. | |

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| 155. | Which one of the following is a correct statement concerning a sole proprietorship?      |  |  | | --- | --- | | A. | A sole proprietorship is relatively difficult to form. |  |  |  | | --- | --- | | B. | The profits earned by a sole proprietorship are subject to double taxation. |  |  |  | | --- | --- | | C. | A sole proprietorship is more highly regulated than a corporation. |  |  |  | | --- | --- | | D. | The losses incurred by a sole proprietor are limited to the amount invested in the firm. |  |  |  | | --- | --- | | E. | It may be difficult to transfer the ownership of a sole proprietorship. | |

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| 156. | Which of the following statements related to partnerships are correct?  I. Partnerships have unlimited lives due to the multiple form of ownership. II. Partnership income is treated as personal income of the partners. III. General partners have limited liability for the debts of the partnership. IV. A limited partner can lose his or her investment in the partnership.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | III and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 157. | Which one of the following is a disadvantage of a partnership?      |  |  | | --- | --- | | A. | Double taxation. |  |  |  | | --- | --- | | B. | Ability to raise capital as compared to a sole proprietorship. |  |  |  | | --- | --- | | C. | Growth limitations due to the inability to raise investment capital. |  |  |  | | --- | --- | | D. | The debt obligations of a limited partner. |  |  |  | | --- | --- | | E. | Complexity and cost of partnership formation. | |

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| 158. | Which of the following are common characteristics between a sole proprietorship and a general partnership?  I. Method of taxation. II. Limited life of business entity. III. Personal liability. IV. Division of net profits.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 159. | A corporation:  I. Is subject to double taxation. II. Can be sued. III. Can have an unlimited life. IV. Can be a general partner in a partnership.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | II, III, and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 160. | Robert Fischer is one of the owners of a firm which generated $18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert must be a partial owner of a:      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | Non-dividend paying corporation. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| 161. | The articles of incorporation include which of the following items?  I. The maximum number of shares of stock that can be issued II. A description of the method to be used to elect individuals to the board of directors. III. The intended life of the corporation. IV. The name of the corporation.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, III, and IV only |  |  |  | | --- | --- | | E. | I, II, and III only | |

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| 162. | Which one of the following actions by a financial manager is most aligned with the goal of financial management?      |  |  | | --- | --- | | A. | Increasing the size of a firm by acquiring a non-profitable competitor. |  |  |  | | --- | --- | | B. | Increasing the sales of the firm by expanding the company's sales force. |  |  |  | | --- | --- | | C. | Issuing additional shares of stock to repay all of the firm's long-term debt. |  |  |  | | --- | --- | | D. | Improving the efficiency of the company such that the value of the stock increases. |  |  |  | | --- | --- | | E. | Increasing the bonuses paid to the top executives as the size of the firm increases. | |

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| 163. | Which one of the following groups is the goal of financial management centered around?      |  |  | | --- | --- | | A. | Potential new shareholders. |  |  |  | | --- | --- | | B. | Existing shareholders. |  |  |  | | --- | --- | | C. | Current creditors. |  |  |  | | --- | --- | | D. | The CRA. |  |  |  | | --- | --- | | E. | Existing management. | |

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| 164. | Which one of the following best illustrates the agency problem?      |  |  | | --- | --- | | A. | An employee offers a suggestion which will save the company money and reduce the stress of his job. |  |  |  | | --- | --- | | B. | The company creates a management bonus program whereby managers are rewarded when the market price of the firm's stock rises. |  |  |  | | --- | --- | | C. | Management rejects a merger which was desired by the shareholders. |  |  |  | | --- | --- | | D. | Management expands its operations overseas which is favourably received by the financial markets. |  |  |  | | --- | --- | | E. | Management reduces the risk level of the firm while maintaining a steady stock price. | |

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| 165. | To avoid the agency problem, managers should take actions:      |  |  | | --- | --- | | A. | Which adds value to the firm. |  |  |  | | --- | --- | | B. | Only after the president has approved them. |  |  |  | | --- | --- | | C. | Only if they increase the market share of the firm. |  |  |  | | --- | --- | | D. | Which add to the size of the firm's workforce. |  |  |  | | --- | --- | | E. | Only if management jobs will not be jeopardized. | |

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| 166. | Managers who place the interest of the shareholders first, will tend to:      |  |  | | --- | --- | | A. | Be replaced on a routine basis. |  |  |  | | --- | --- | | B. | Decline all offers to buy the firm. |  |  |  | | --- | --- | | C. | Realize minimal value from the stock options they are granted. |  |  |  | | --- | --- | | D. | Reward employees for unethical behavior if that behavior increases the firm's net income. |  |  |  | | --- | --- | | E. | Be in greater demand and receive higher compensation. | |

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| 167. | Which of the following are agency costs?  I. Flying an executive overseas without a genuine business purpose for doing so. II. Paying more than the actual market value to purchase a competitor. III. Hiring outside auditors to monitor the firm's financial activities. IV. Protecting management jobs which could effectively be eliminated.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 168. | Which of the following are stakeholders of the BBX grocery store?  I. Individuals and institutions who own BBX stock. II. A bank to whom BBX owes money. III. The government. IV. An individual who lives next door to and shops in a BBX store.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 169. | Which one of the following transactions would occur in the primary market?      |  |  | | --- | --- | | A. | The gifting of ABC Co. shares by a grandmother to her grandchildren. |  |  |  | | --- | --- | | B. | A financial institution selling shares of OPQ stock to another financial institution. |  |  |  | | --- | --- | | C. | An individual selling shares of JKL stock to an existing JKL shareholder. |  |  |  | | --- | --- | | D. | A financial institution buying shares of LM stock from an LM executive. |  |  |  | | --- | --- | | E. | KM Co. selling new shares of stock to a financial institution | |

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| 170. | NASDAQ is:      |  |  | | --- | --- | | A. | The largest financial market in the U.S. in terms of the total value of listed stocks. |  |  |  | | --- | --- | | B. | Both an OTC and an auction market. |  |  |  | | --- | --- | | C. | An electronic market trading solely in corporate and government bonds. |  |  |  | | --- | --- | | D. | An electronic market which has no physical location. |  |  |  | | --- | --- | | E. | A market with far fewer listings than the NYSE. | |

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| 171. | Which of the following questions are addressed by financial managers?  I. How long will it take to produce a product? II. How long should customers be given to pay for their credit purchases? III. Should the firm borrow more money? IV. Should the firm build a new factory?      |  |  | | --- | --- | | A. | I and IV only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 172. | The treasurer and the controller of a corporation generally report to the:      |  |  | | --- | --- | | A. | Board of directors. |  |  |  | | --- | --- | | B. | Chairman of the board. |  |  |  | | --- | --- | | C. | Chief executive officer. |  |  |  | | --- | --- | | D. | President. |  |  |  | | --- | --- | | E. | Vice president of finance. | |

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| 173. | Which one of the following statements is correct concerning the organizational structure of a corporation?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | B. | The chief executive officer reports to the board of directors. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The chief operations officer reports to the vice president of production. | |

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| 174. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | Determining how much debt should be borrowed from a particular lender. |  |  |  | | --- | --- | | B. | Deciding whether or not to open a new store. |  |  |  | | --- | --- | | C. | Deciding when to repay a long-term debt. |  |  |  | | --- | --- | | D. | Determining how much inventory to keep on hand. |  |  |  | | --- | --- | | E. | Determining how much money should be kept in the checking account. | |

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| 175. | When considering a capital budgeting project the financial manager should consider:      |  |  | | --- | --- | | A. | Only the size of the project. |  |  |  | | --- | --- | | B. | Only the timing of the project cash flows. |  |  |  | | --- | --- | | C. | Only the risk of the project cash flows. |  |  |  | | --- | --- | | D. | Only the size and timing of the project cash flows. |  |  |  | | --- | --- | | E. | The size, timing, and risk of the project cash flows. | |

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| 176. | Capital structure decisions include consideration of the:  I. Amount of long-term debt to assume. II. Cost of acquiring funds. III. Current assets and liabilities. IV. Net working capital.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | III and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 177. | The decision of which lender to use and which type of long-term loan is best for a project is part of:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | The net working capital decision. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | A controller's duties. |  |  |  | | --- | --- | | E. | The capital structure decision. | |

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| 178. | Working capital management includes decisions concerning which of the following?  I. Accounts payable. II. Long-term debt. III. Accounts receivable. IV. Inventory.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 179. | Working capital management:      |  |  | | --- | --- | | A. | Ensures that sufficient equipment is available to produce the amount of product desired on a daily basis. |  |  |  | | --- | --- | | B. | Ensures that long-term debt is acquired at the lowest possible cost. |  |  |  | | --- | --- | | C. | Ensures that dividends are paid to all stockholders on an annual basis. |  |  |  | | --- | --- | | D. | Balances the amount of company debt to the amount of available equity. |  |  |  | | --- | --- | | E. | Concerned with having sufficient funds to operate the business on a daily basis. | |

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| 180. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | A sole proprietorship is the least common form of business ownership. |  |  |  | | --- | --- | | B. | The profits of a sole proprietorship are taxed twice. |  |  |  | | --- | --- | | C. | The owners of a sole proprietorship share profits as established by the partnership agreement. |  |  |  | | --- | --- | | D. | The owner of a sole proprietorship may be forced to sell his/her personal assets to pay company debts. |  |  |  | | --- | --- | | E. | A sole proprietorship is often structured as a limited liability company. | |

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| 181. | Which one of the following statements is correct concerning corporations?      |  |  | | --- | --- | | A. | The largest firms are usually corporations. |  |  |  | | --- | --- | | B. | The majority of firms are corporations. |  |  |  | | --- | --- | | C. | The stockholders are usually the managers of a corporation. |  |  |  | | --- | --- | | D. | The ability of a corporation to raise capital is quite limited. |  |  |  | | --- | --- | | E. | The income of a corporation is taxed as personal income of the stockholders | |

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| 182. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | The life of the firm is limited to the life span of the owner. |  |  |  | | --- | --- | | B. | The owner can generally raise large sums of capital quite easily. |  |  |  | | --- | --- | | C. | The ownership of the firm is easy to transfer to another individual. |  |  |  | | --- | --- | | D. | The company must pay separate taxes from those paid by the owner. |  |  |  | | --- | --- | | E. | The legal costs to form a sole proprietorship are quite substantial. | |

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| 183. | Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?      |  |  | | --- | --- | | A. | Entitlement to a larger portion of the partnership's income |  |  |  | | --- | --- | | B. | Ability to manage the day-to-day affairs of the business |  |  |  | | --- | --- | | C. | No potential financial loss |  |  |  | | --- | --- | | D. | Greater management responsibility |  |  |  | | --- | --- | | E. | Liability for firm debts limited to the capital invested | |

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| 184. | A general partner:      |  |  | | --- | --- | | A. | Has less legal liability than a limited partner. |  |  |  | | --- | --- | | B. | Has more management responsibility than a limited partner. |  |  |  | | --- | --- | | C. | Faces double taxation whereas a limited partner does not. |  |  |  | | --- | --- | | D. | Cannot lose more than the amount of his/her equity investment. |  |  |  | | --- | --- | | E. | Is the term applied only to corporations which invest in partnerships. | |

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| 185. | A partnership:      |  |  | | --- | --- | | A. | Is taxed the same as a corporation. |  |  |  | | --- | --- | | B. | Agreement defines whether the business income will be taxed like a partnership or a corporation. |  |  |  | | --- | --- | | C. | Terminates at the death of any general partner. |  |  |  | | --- | --- | | D. | Has less of an ability to raise capital than a proprietorship. |  |  |  | | --- | --- | | E. | Allows for easy transfer of interest from one general partner to another. | |

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| 186. | Which of the following are disadvantages of a partnership?  I. Limited life of the firm. II. Personal liability for firm debt. III. Greater ability to raise capital than a sole proprietorship. IV. Lack of ability to transfer partnership interest.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 187. | Which of the following are advantages of the corporate form of business ownership?  I. Limited liability for firm debt. II. Double taxation. III. Ability to raise capital. IV. Unlimited firm life.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| 188. | Which one of the following statements is correct concerning corporations?      |  |  | | --- | --- | | A. | The largest firms are usually corporations. |  |  |  | | --- | --- | | B. | The majority of firms are corporations. |  |  |  | | --- | --- | | C. | The stockholders are usually the managers of a corporation. |  |  |  | | --- | --- | | D. | The ability of a corporation to raise capital is quite limited. |  |  |  | | --- | --- | | E. | The income of a corporation is taxed as personal income of the stockholders. | |

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| 189. | Which one of the following statements is correct?      |  |  | | --- | --- | | A. | Both partnerships and corporations incur double taxation. |  |  |  | | --- | --- | | B. | Both sole proprietorships and partnerships are taxed in a similar fashion. |  |  |  | | --- | --- | | C. | Partnerships are the most complicated type of business to form. |  |  |  | | --- | --- | | D. | Both partnerships and corporations have bylaws. |  |  |  | | --- | --- | | E. | All types of business formations have limited lives. | |

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| 190. | The articles of incorporation:      |  |  | | --- | --- | | A. | Can be used to remove company management. |  |  |  | | --- | --- | | B. | Are amended annually by the company stockholders. |  |  |  | | --- | --- | | C. | Set forth the number of shares of stock that can be issued. |  |  |  | | --- | --- | | D. | Set forth the rules by which the corporation regulates its existence. |  |  |  | | --- | --- | | E. | Can set forth the conditions under which the firm can avoid double taxation. | |

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| 191. | The bylaws:      |  |  | | --- | --- | | A. | Establish the name of the corporation. |  |  |  | | --- | --- | | B. | Are rules which apply only to limited liability companies. |  |  |  | | --- | --- | | C. | Set forth the purpose of the firm. |  |  |  | | --- | --- | | D. | Mandate the procedure for electing corporate directors. |  |  |  | | --- | --- | | E. | Set forth the procedure by which the stockholders elect the senior managers of the firm. | |

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| 192. | Which one of the following business types is best suited to raising large amounts of capital?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | Limited liability company. |  |  |  | | --- | --- | | C. | Corporation. |  |  |  | | --- | --- | | D. | General partnership. |  |  |  | | --- | --- | | E. | Limited partnership. | |

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| 193. | Which type of business organization has all the respective rights and privileges of a legal person?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | Corporation. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| 194. | Financial managers should strive to maximize the current value per share of the existing stock because:      |  |  | | --- | --- | | A. | Doing so guarantees the company will grow in size at the maximum possible rate. |  |  |  | | --- | --- | | B. | Doing so increases the salaries of all the employees. |  |  |  | | --- | --- | | C. | They have been hired for the purpose of representing the interest of the current shareholders. |  |  |  | | --- | --- | | D. | Doing so means the firm is growing in size faster than its competitors. |  |  |  | | --- | --- | | E. | The managers often receive shares of stock as part of their compensation. | |

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| 195. | The decisions made by financial managers should all be ones which increase the:      |  |  | | --- | --- | | A. | Size of the firm. |  |  |  | | --- | --- | | B. | Growth rate of the firm. |  |  |  | | --- | --- | | C. | Marketability of the managers. |  |  |  | | --- | --- | | D. | Market value of the existing owners' equity. |  |  |  | | --- | --- | | E. | Financial distress of the firm. | |

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| 196. | Which one of the following actions by a financial manager creates an agency problem?      |  |  | | --- | --- | | A. | Refusing to borrow money when doing so will create losses for the firm. |  |  |  | | --- | --- | | B. | Refusing to lower selling prices if doing so will reduce the net profits. |  |  |  | | --- | --- | | C. | Agreeing to expand the company at the expense of stockholders' value. |  |  |  | | --- | --- | | D. | Agreeing to pay bonuses based on the market value of the company stock. |  |  |  | | --- | --- | | E. | Increasing current costs in order to increase the market value of the stockholders' equity. | |

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| 197. | Which of the following help convince managers to work in the best interest of the stockholders?  I. Compensation based on the value of the stock. II. Stock option plans. III. Threat of a company takeover. IV. Threat of a proxy fight.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | D. | I, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 198. | Which form of business structure faces the greatest agency problems?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | Corporation. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| 199. | Which of the following are agency costs?  I. Foregoing an investment opportunity which would add to the market value of the owner's equity. II. Paying a dividend to each of the existing shareholders. III. Purchasing new equipment which increases the value of each share of stock. IV. Hiring outside auditors to verify the accuracy of the company financial statements.      |  |  | | --- | --- | | A. | II and III only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | I and IV only |  |  |  | | --- | --- | | D. | II and IV only |  |  |  | | --- | --- | | E. | I, II, and IV only | |

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| 200. | Which of the following represent cash outflows from a firm?  I. Issuance of securities. II. Payment of dividends. III. New loan proceeds. IV. Payment of government taxes.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | I and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | II, III, and IV only | |

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| 201. | Which one of the following is a primary market transaction?      |  |  | | --- | --- | | A. | A dealer selling shares of stock to an individual investor. |  |  |  | | --- | --- | | B. | A dealer buying newly issued shares of stock from a corporation. |  |  |  | | --- | --- | | C. | An individual investor selling shares of stock to another individual. |  |  |  | | --- | --- | | D. | A bank selling shares of a medical firm to an individual. |  |  |  | | --- | --- | | E. | A sole proprietor buying shares of stock from an individual investor. | |

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| 202. | Which of the following statements concerning auction markets is (are) correct?  I. NASDAQ is an auction market. II. The TSX is an auction market. III. All trades involve a dealer in an auction market. IV. An auction market is called an over-the-counter market.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | II and IV only | |

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| 203. | Which one of the following statements concerning stock exchanges is correct?      |  |  | | --- | --- | | A. | The NYSE has more listed stocks than NASDAQ. |  |  |  | | --- | --- | | B. | The TSX is primarily a dealer market. |  |  |  | | --- | --- | | C. | The exchange with the strictest listing requirements is NASDAQ. |  |  |  | | --- | --- | | D. | Some large companies are listed on NASDAQ. |  |  |  | | --- | --- | | E. | Most debt securities are traded on the TSX. | |

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| 204. | Dealer markets:      |  |  | | --- | --- | | A. | Are reserved strictly for trading debt securities. |  |  |  | | --- | --- | | B. | Only exist outside of Canada. |  |  |  | | --- | --- | | C. | Are called over-the-counter markets. |  |  |  | | --- | --- | | D. | Include NASDAQ and the New York Stock Exchange. |  |  |  | | --- | --- | | E. | List only the securities of the largest firms. | |

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| 205. | Which one of the following statements is correct concerning the TSX?      |  |  | | --- | --- | | A. | A firm is expected to have a market value for its publicly held shares of at least $2 million to be listed on the TSX. |  |  |  | | --- | --- | | B. | The TSX is the largest dealer market for listed securities in Canada. |  |  |  | | --- | --- | | C. | The TSX is the second largest stock exchange in the world. |  |  |  | | --- | --- | | D. | Any corporation desiring to be listed on the TSX can do so. |  |  |  | | --- | --- | | E. | The TSX is an over-the-counter exchange functioning as both a primary and a secondary market. | |

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| 206. | Which of the following statements concerning NASDAQ are correct?  I. Most smaller firms are listed on NASDAQ rather than on the NYSE. II. NASDAQ is an electronic market. III. NASDAQ is an auction market. IV. NASDAQ is an OTC market.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| 207. | Cash flow from a firm's assets can be:      |  |  | | --- | --- | | A. | Reinvested to other companies. |  |  |  | | --- | --- | | B. | Paid out as interest. |  |  |  | | --- | --- | | C. | Distributed to bondholders. |  |  |  | | --- | --- | | D. | Invested in money market funds. |  |  |  | | --- | --- | | E. | Reinvested back in the company. | |

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| 208. | The area of corporate finance concerned purchasing and selling stocks and bonds is called:      |  |  | | --- | --- | | A. | Investments. |  |  |  | | --- | --- | | B. | Municipal finance. |  |  |  | | --- | --- | | C. | International finance. |  |  |  | | --- | --- | | D. | Institutional finance. |  |  |  | | --- | --- | | E. | Strategic finance. | |

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| 209. | The purchase and sale of shares between investors are done in which market?      |  |  | | --- | --- | | A. | Secondary market. |  |  |  | | --- | --- | | B. | Foreign exchange market. |  |  |  | | --- | --- | | C. | Debt market. |  |  |  | | --- | --- | | D. | Derivatives market. |  |  |  | | --- | --- | | E. | Tertiary market. | |

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| 210. | The mix of debt and equity by which a corporation is financed refers to the firm's:      |  |  | | --- | --- | | A. | Cash management. |  |  |  | | --- | --- | | B. | Capital structure. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | Working capital management. |  |  |  | | --- | --- | | E. | Leverage management. | |

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| 211. | Which of the following is not a capital budgeting question?      |  |  | | --- | --- | | A. | The choice of which long-term assets to purchase. |  |  |  | | --- | --- | | B. | What type of business a firm wants to operate. |  |  |  | | --- | --- | | C. | The dollar obtained by putting long-term assets to use. |  |  |  | | --- | --- | | D. | The percentage return obtained by putting long-term assets to use. |  |  |  | | --- | --- | | E. | Credit policy to provide. | |

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| 212. | What is not a working capital question that must be answered?      |  |  | | --- | --- | | A. | How much cash and inventory should be kept on hand? |  |  |  | | --- | --- | | B. | Should we sell on credit? |  |  |  | | --- | --- | | C. | To whom should credit be extended to? |  |  |  | | --- | --- | | D. | Net present value (NPV) and internal rate of return (IRR) of a long-term project |  |  |  | | --- | --- | | E. | Length of credit terms to provide | |

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| 213. | Which of the following is incorrect regarding employee stock options?      |  |  | | --- | --- | | A. | It allows management to purchase shares at a fixed price over a period of time. |  |  |  | | --- | --- | | B. | It provides the manager with an ownership stake in the company. |  |  |  | | --- | --- | | C. | Options are meant to align the manager's and actions with shareholders' interests. |  |  |  | | --- | --- | | D. | Many believe management are already overpaid. |  |  |  | | --- | --- | | E. | Many believe management are underpaid and stock options will benefit pay. | |

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| 214. | Which of the following is disadvantage of a sole proprietorship?      |  |  | | --- | --- | | A. | The owner receiving all the after-tax profit. |  |  |  | | --- | --- | | B. | Unlimited liability. |  |  |  | | --- | --- | | C. | Quick decision making. |  |  |  | | --- | --- | | D. | Can be created through a simple business license. |  |  |  | | --- | --- | | E. | Less reliance on partners. | |

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| 215. | Double taxation refers to which of the following scenarios?      |  |  | | --- | --- | | A. | Both bondholders and shareholders must pay taxes. |  |  |  | | --- | --- | | B. | The corporation pays taxes on earnings, and creditors pay taxes on interest received. |  |  |  | | --- | --- | | C. | The corporation pays taxes on its earnings, and shareholders pay taxes on dividends. |  |  |  | | --- | --- | | D. | The corporation pays taxes on revenues and expenses. |  |  |  | | --- | --- | | E. | The corporation pays taxes on revenues and earnings. | |

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| 216. | In corporate agency theory, managers are \_\_\_\_\_\_\_\_\_\_, and owners are \_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Bondholders, shareholder. |  |  |  | | --- | --- | | B. | Shareholder, bondholders. |  |  |  | | --- | --- | | C. | Agents, principals. |  |  |  | | --- | --- | | D. | Principals, agents. |  |  |  | | --- | --- | | E. | Agents, contractors. | |

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| 217. | What are the two types of primary market transactions that Corporations engage in?      |  |  | | --- | --- | | A. | Primary and secondary placements. |  |  |  | | --- | --- | | B. | Debt and equity placements. |  |  |  | | --- | --- | | C. | Public offerings and private placements. |  |  |  | | --- | --- | | D. | Staggered and orderly offerings. |  |  |  | | --- | --- | | E. | Dutch auctions and orderly offerings. | |

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| 218. | Double taxation refers to which of the following scenarios?      |  |  | | --- | --- | | A. | Both bondholders and shareholders must pay taxes. |  |  |  | | --- | --- | | B. | The corporation pays taxes on earnings, and creditors pay taxes on interest received. |  |  |  | | --- | --- | | C. | The corporation pays taxes on its earnings, and shareholders pay taxes on dividends. |  |  |  | | --- | --- | | D. | The corporation pays taxes on revenues and expenses. |  |  |  | | --- | --- | | E. | The corporation pays taxes on revenues and earnings. | |

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| 219. | In corporate agency theory, managers are \_\_\_\_\_\_\_\_\_\_, and owners are \_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Bondholders, shareholder. |  |  |  | | --- | --- | | B. | Shareholder, bondholders. |  |  |  | | --- | --- | | C. | Agents, principals. |  |  |  | | --- | --- | | D. | Principals, agents. |  |  |  | | --- | --- | | E. | Agents, contractors. | |

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| 220. | What are the two types of primary market transactions that Corporations engage in?      |  |  | | --- | --- | | A. | Primary and secondary placements. |  |  |  | | --- | --- | | B. | Debt and equity placements. |  |  |  | | --- | --- | | C. | Public offerings and private placements. |  |  |  | | --- | --- | | D. | Staggered and orderly offerings. |  |  |  | | --- | --- | | E. | Dutch auctions and orderly offerings. | |

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| 221. | Regulatory dialectic refers to:      |  |  | | --- | --- | | A. | The pressures governments exert on financial institutions and regulatory bodies. |  |  |  | | --- | --- | | B. | The pressures financial institutions and regulatory bodies exert on each other. |  |  |  | | --- | --- | | C. | The pressures corporations exert on financial institutions and regulatory bodies. |  |  |  | | --- | --- | | D. | The pressures of foreign ownership on regulatory bodies. |  |  |  | | --- | --- | | E. | The pressures investors exert on the markets. | |

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| 222. | List and briefly describe the three basic questions addressed by a financial manager. |

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| 223. | Why is the corporate form of business organization considered to be more important than sole proprietorships or partnerships? |

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| 224. | If the corporate form of business organization has so many advantages over the corporate form, why is it so common for small businesses to initially be formed as sole proprietorships? |

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| 225. | What should be the goal of the financial manager of a corporation? Why? |

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| 226. | Do you think agency problems arise in sole proprietorships and/or partnerships? |

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| 227. | Assume for a moment that the stockholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for common stock? |

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| 228. | Suppose you own 100 shares of IBM stock which you intend to sell today. Since you will sell it in the secondary market, IBM will receive no direct cash flows as a consequence of your sale. Why, then, should IBM's management care about the price you get for your shares? |

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| 229. | One thing lenders sometimes require when lending money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here? |

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| 230. | Why might a corporation wish to list its shares on a national exchange such as the TSX as opposed to a regional exchange? How about being traded OTC? |

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| 231. | Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues. |

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| 232. | Explain the cash flow pattern between a firm and the financial markets. |

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| 233. | Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal. |

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| 234. | Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type. |

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| 235. | Explain how ethics can affect the value of a public corporation. |

Chapter 01: Introduction to Corporate Finance Key

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| 1. | When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important.    **FALSE** |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #1 Type: Concepts* |

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| 2. | In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.    **TRUE** |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #2 Type: Concepts* |

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| 3. | Maximization of the current earnings of the firm is the main goal of the financial manager.    **FALSE** |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #3 Type: Concepts* |

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| 4. | The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation.    **FALSE** |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #4 Type: Concepts* |

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| 5. | The primary goal of financial management is to minimize the corporate tax liability.    **FALSE** |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #5 Type: Concepts* |

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| 6. | When owners are managers (such as in a sole proprietorship), a firm will have agency costs.    **FALSE** |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #6 Type: Concepts* |

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| 7. | IBEC Inc. of Toronto spends approximately $2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.    **FALSE** |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #7 Type: Concepts* |

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| 8. | The board of directors has the power to act on behalf of the shareholders to hire and fire the operating management of the firm. In a legal sense, the directors are "principals" and the shareholders are "agents".    **FALSE** |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #8 Type: Concepts* |

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| 9. | The corporate officer generally responsible for tasks related to tax management, cost accounting, financial accounting, and data processing is the:      |  |  | | --- | --- | | A. | Corporate Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | **C.** | Corporate Controller. |  |  |  | | --- | --- | | D. | Chairman of the Board. |  |  |  | | --- | --- | | E. | Vice President of Operations. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #9 Type: Definitions* |

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| 10. | The corporate officer generally responsible for tasks related to cash and credit management, financial planning, and capital expenditures is the:      |  |  | | --- | --- | | **A.** | Corporate Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Corporate Controller. |  |  |  | | --- | --- | | D. | Chairman of the Board. |  |  |  | | --- | --- | | E. | Vice President of Operations. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #10 Type: Definitions* |

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| 11. | The process of planning and managing a firm's Long-term investments is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | **D.** | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #11 Type: Definitions* |

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| 12. | The mixture of debt and equity used by the firm to finance its operations is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | **E.** | Capital structure. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #12 Type: Definitions* |

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| 13. | The management of the firm's short-term assets and liabilities is called:      |  |  | | --- | --- | | **A.** | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #13 Type: Definitions* |

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| 14. | A business owned by a single individual is called a(n):      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | **B.** | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #14 Type: Definitions* |

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| 15. | A business formed by two or more individuals or entities is called a(n):      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | **C.** | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #15 Type: Definitions* |

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| 16. | The division of profits and losses between the members of a partnership is formalized in the:      |  |  | | --- | --- | | A. | Indemnity clause. |  |  |  | | --- | --- | | B. | Indenture contract. |  |  |  | | --- | --- | | C. | Statement of purpose. |  |  |  | | --- | --- | | **D.** | Partnership agreement. |  |  |  | | --- | --- | | E. | Group charter. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #16 Type: Definitions* |

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| 17. | A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):      |  |  | | --- | --- | | **A.** | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | Closed receivership. |  |  |  | | --- | --- | | E. | Open structure. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #17 Type: Definitions* |

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| 18. | The document that legally establishes domicile for a corporation is called the:      |  |  | | --- | --- | | A. | Indenture contract. |  |  |  | | --- | --- | | B. | Partnership agreement. |  |  |  | | --- | --- | | C. | Amended homestead filing. |  |  |  | | --- | --- | | D. | Bylaws. |  |  |  | | --- | --- | | **E.** | Articles of incorporation. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #18 Type: Definitions* |

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| 19. | The rules by which corporations govern themselves are called:      |  |  | | --- | --- | | A. | Indenture provisions. |  |  |  | | --- | --- | | B. | Indemnity provisions. |  |  |  | | --- | --- | | C. | Partnership agreements. |  |  |  | | --- | --- | | **D.** | Bylaws. |  |  |  | | --- | --- | | E. | Articles of incorporation. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #19 Type: Definitions* |

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| 20. | The primary goal of financial management is to:      |  |  | | --- | --- | | A. | Maximize current sales. |  |  |  | | --- | --- | | **B.** | Maximize the current value per share of the existing stock. |  |  |  | | --- | --- | | C. | Avoid financial distress. |  |  |  | | --- | --- | | D. | Minimize operational costs. |  |  |  | | --- | --- | | E. | Maintain steady earnings growth. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #20 Type: Definitions* |

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| 21. | The possibility of conflict of interest between the stockholders and management of the firm is called:      |  |  | | --- | --- | | A. | The shareholders' conundrum. |  |  |  | | --- | --- | | B. | Corporate breakdown. |  |  |  | | --- | --- | | **C.** | The agency problem. |  |  |  | | --- | --- | | D. | Corporate activism. |  |  |  | | --- | --- | | E. | Legal liability. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #21 Type: Definitions* |

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| 22. | Agency costs are:      |  |  | | --- | --- | | A. | The total dividends paid to shareholders over the lifetime of the firm. |  |  |  | | --- | --- | | B. | The costs that result from default and bankruptcy of the firm. |  |  |  | | --- | --- | | C. | Corporate income subject to double taxation. |  |  |  | | --- | --- | | **D.** | The costs of the conflict of interest between stockholders and management. |  |  |  | | --- | --- | | E. | The total interest paid to creditors over the lifetime of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #22 Type: Definitions* |

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| 23. | A stakeholder is:      |  |  | | --- | --- | | A. | Given to each stockholder when they first purchase their stock. |  |  |  | | --- | --- | | B. | A proxy vote made at a shareholders' meeting. |  |  |  | | --- | --- | | C. | A founding stockholder of the firm. |  |  |  | | --- | --- | | D. | An original creditor of the firm. |  |  |  | | --- | --- | | **E.** | A person or entity including a stockholder or creditor, who potentially has a claim on the cash flows of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #23 Type: Definitions* |

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| 24. | The original sale of securities by governments and corporations occurs in the:      |  |  | | --- | --- | | **A.** | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #24 Type: Definitions* |

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| 25. | The purchase and sale of securities after the original issuance occurs in the:      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | **B.** | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #25 Type: Definitions* |

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| 26. | A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | **C.** | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #26 Type: Definitions* |

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| 27. | A market where trading takes place between buyers and sellers directly is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | **D.** | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #27 Type: Definitions* |

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| 28. | The secondary market is:       |  |  | | --- | --- | | A. | The market for the original sale of securities by governments and corporations. |  |  |  | | --- | --- | | B. | The market in which dealers buy and sell for themselves, at their own risk. |  |  |  | | --- | --- | | C. | The market in which purchasers are matched with those who wish to sell. |  |  |  | | --- | --- | | D. | A market which has no central Location. |  |  |  | | --- | --- | | **E.** | The market in which securities are bought and sold after original sale. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #28 Type: Definitions* |

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| 29. | The Corporate Treasurer is in charge of:      |  |  | | --- | --- | | A. | Cost accounting. |  |  |  | | --- | --- | | **B.** | Credit management. |  |  |  | | --- | --- | | C. | Data processing. |  |  |  | | --- | --- | | D. | Tax management. |  |  |  | | --- | --- | | E. | Financial accounting. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #29 Type: Definitions* |

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| 30. | The Chief Financial Officer of a corporation is the:      |  |  | | --- | --- | | A. | Chairman of the Board. |  |  |  | | --- | --- | | B. | President. |  |  |  | | --- | --- | | C. | Corporate Controller. |  |  |  | | --- | --- | | **D.** | Vice President of Finance. |  |  |  | | --- | --- | | E. | Corporate Treasurer. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #30 Type: Definitions* |

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| 31. | Deciding whether or not to open a new store is part of the process known as:      |  |  | | --- | --- | | **A.** | Capital budgeting. |  |  |  | | --- | --- | | B. | Credit management. |  |  |  | | --- | --- | | C. | Capital structure. |  |  |  | | --- | --- | | D. | Cash management. |  |  |  | | --- | --- | | E. | Working capital management. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #31 Type: Definitions* |

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| 32. | Capital structure refers to:      |  |  | | --- | --- | | A. | The amount of inventory held. |  |  |  | | --- | --- | | B. | The amount of cash on hand. |  |  |  | | --- | --- | | **C.** | The mixture of debt and equity. |  |  |  | | --- | --- | | D. | The accounts receivable policy. |  |  |  | | --- | --- | | E. | The management of Long-term investments. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #32 Type: Definitions* |

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| 33. | Working capital management refers to:      |  |  | | --- | --- | | A. | The types of stock issued. |  |  |  | | --- | --- | | B. | The amount of Long-term debt. |  |  |  | | --- | --- | | C. | The mixture of debt and equity. |  |  |  | | --- | --- | | D. | The types of Long-term investments made. |  |  |  | | --- | --- | | **E.** | The levels of cash and inventory held. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #33 Type: Definitions* |

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| 34. | A business that is a distinct legal entity is a:      |  |  | | --- | --- | | A. | Proprietorship. |  |  |  | | --- | --- | | B. | Partnership with only two partners. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | General partnership. |  |  |  | | --- | --- | | **E.** | Corporation. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #34 Type: Definitions* |

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| 35. | The primary goal of financial management is to maximize the:      |  |  | | --- | --- | | A. | Growth rate of a firm. |  |  |  | | --- | --- | | B. | Compensation of the corporate officers. |  |  |  | | --- | --- | | **C.** | Current value of each share of outstanding stock. |  |  |  | | --- | --- | | D. | Number of shares of common stock outstanding. |  |  |  | | --- | --- | | E. | Book value of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #35 Type: Definitions* |

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| 36. | A proxy fight is:      |  |  | | --- | --- | | **A.** | A method used by stockholders to replace corporate management. |  |  |  | | --- | --- | | B. | A means used to decrease the number of outstanding shares of stock. |  |  |  | | --- | --- | | C. | A normal part of a corporate merger. |  |  |  | | --- | --- | | D. | Used as a means of increasing the amount of dividends paid per share. |  |  |  | | --- | --- | | E. | Used as a means of issuing additional shares of common stock. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #36 Type: Definitions* |

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| 37. | Suppliers, customers, and employees of a corporation are called:      |  |  | | --- | --- | | A. | Shareholders. |  |  |  | | --- | --- | | **B.** | Stakeholders. |  |  |  | | --- | --- | | C. | Debtors. |  |  |  | | --- | --- | | D. | Stockholders. |  |  |  | | --- | --- | | E. | Partners. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #37 Type: Definitions* |

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| 38. | A proprietorship is:      |  |  | | --- | --- | | A. | A business formed by two or more individuals. |  |  |  | | --- | --- | | B. | A separate legal body formed by an individual who has limited personal liability. |  |  |  | | --- | --- | | **C.** | A business owned by an individual who has unlimited personal liability. |  |  |  | | --- | --- | | D. | A business managed by a single general partner. |  |  |  | | --- | --- | | E. | A limited liability form of business ownership. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #38 Type: Definitions* |

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| 39. | Conflicts that arise between the interests of managers and stockholders are referred to as:      |  |  | | --- | --- | | A. | Control problems. |  |  |  | | --- | --- | | **B.** | Agency problems. |  |  |  | | --- | --- | | C. | Management conflicts. |  |  |  | | --- | --- | | D. | Stockholder conflicts. |  |  |  | | --- | --- | | E. | Proxy fights. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #39 Type: Definitions* |

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| 40. | The primary market includes:      |  |  | | --- | --- | | A. | The purchase and sale of shares of stock between two shareholders. |  |  |  | | --- | --- | | B. | The sale of stock by a shareholder in the open market. |  |  |  | | --- | --- | | C. | The sale of stock by a shareholder in an auction market. |  |  |  | | --- | --- | | **D.** | The sale of new securities by a corporation on an exchange. |  |  |  | | --- | --- | | E. | The sale of stock by a shareholder in the OTC market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #40 Type: Definitions* |

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| 41. | Stocks that trade on an exchange are referred to as:      |  |  | | --- | --- | | A. | Primary stocks. |  |  |  | | --- | --- | | B. | Optioned stocks. |  |  |  | | --- | --- | | C. | SEC stocks. |  |  |  | | --- | --- | | D. | Privately held stocks. |  |  |  | | --- | --- | | **E.** | Listed stocks. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #41 Type: Definitions* |

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| 42. | An individual who buys and sells stocks for his/her own account is a:      |  |  | | --- | --- | | **A.** | Dealer. |  |  |  | | --- | --- | | B. | Agent. |  |  |  | | --- | --- | | C. | Broker. |  |  |  | | --- | --- | | D. | Auctioneer. |  |  |  | | --- | --- | | E. | OTC broker. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #42 Type: Definitions* |

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| 43. | Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?      |  |  | | --- | --- | | A. | The Corporate Treasurer. |  |  |  | | --- | --- | | B. | The Board of Directors. |  |  |  | | --- | --- | | **C.** | The Corporate Controller. |  |  |  | | --- | --- | | D. | The Chairman of the Board. |  |  |  | | --- | --- | | E. | The Vice President of Production. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #43 Type: Concepts* |

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| 44. | The controller can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.      |  |  | | --- | --- | | A. | Cash balances. |  |  |  | | --- | --- | | B. | Capital expenditures. |  |  |  | | --- | --- | | C. | Production functions. |  |  |  | | --- | --- | | **D.** | Accounting functions. |  |  |  | | --- | --- | | E. | Financial planning. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #44 Type: Definitions* |

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| 45. | The treasurer can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.      |  |  | | --- | --- | | A. | Tax matters. |  |  |  | | --- | --- | | B. | Data processing functions. |  |  |  | | --- | --- | | C. | Financial accounting. |  |  |  | | --- | --- | | D. | Cost accounting. |  |  |  | | --- | --- | | **E.** | Financial planning. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #45 Type: Definitions* |

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| 46. | Capital budgeting is defined as the:      |  |  | | --- | --- | | A. | Mix of debt and equity used by a firm to finance its operations. |  |  |  | | --- | --- | | **B.** | Management of a firm's long-term investments. |  |  |  | | --- | --- | | C. | Process of determining the optimal types and amounts of inventory to keep on hand. |  |  |  | | --- | --- | | D. | Determination of the total amount of money which a firm should borrow. |  |  |  | | --- | --- | | E. | management of a firm's net working capital. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #46 Type: Definitions* |

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| 47. | A firm's capital structure is defined:      |  |  | | --- | --- | | **A.** | As the combination of debt and equity used to finance the firm's operations. |  |  |  | | --- | --- | | B. | By the types of fixed assets the firm owns. |  |  |  | | --- | --- | | C. | As the mix of short-term and Long-term assets owned by the firm. |  |  |  | | --- | --- | | D. | As the amount of fixed assets needed to support every $1 in sales. |  |  |  | | --- | --- | | E. | By the nature of the product or service provided. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #47 Type: Definitions* |

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| 48. | Working capital management refers specifically to:      |  |  | | --- | --- | | A. | Obtaining the necessary funds to finance a firm's daily activities. |  |  |  | | --- | --- | | B. | The daily use of a firm's fixed assets to generate revenue. |  |  |  | | --- | --- | | **C.** | The oversight of a firm's current accounts. |  |  |  | | --- | --- | | D. | The management of a firm's Loan accounts from financial institutions. |  |  |  | | --- | --- | | E. | The utilization of a firm's assets on a daily basis. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #48 Type: Definitions* |

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| 49. | A sole proprietorship is best defined as a business owned by:      |  |  | | --- | --- | | A. | A single individual who has limited liability for the firm's debts. |  |  |  | | --- | --- | | **B.** | A single individual who has unlimited liability for the firm's debts. |  |  |  | | --- | --- | | C. | Individuals who enjoy limited liability. |  |  |  | | --- | --- | | D. | One or more individuals who have agreed to accept unlimited liability for the firm. |  |  |  | | --- | --- | | E. | An individual for less than ten years. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #49 Type: Definitions* |

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| 50. | A general partnership is best defined as a business owned by:      |  |  | | --- | --- | | A. | A single individual who desires limited liability for the firm's debts. |  |  |  | | --- | --- | | **B.** | One or more individuals who are each totally responsible for the debts of the entity. |  |  |  | | --- | --- | | C. | Multiple individuals, 80 percent of whom enjoy limited liability. |  |  |  | | --- | --- | | D. | Two or more individuals, each of whom has limited liability for the firm's debts. |  |  |  | | --- | --- | | E. | Two or more individuals, only one of whom has unlimited liability for the firm's debts. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #50 Type: Definitions* |

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| 51. | An entity wherein one or more owners may elect to actively manage the firm while other owners choose limited liability instead of management responsibility is called a:      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited liability corporation. |  |  |  | | --- | --- | | D. | Limited liability company. |  |  |  | | --- | --- | | **E.** | Limited partnership. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #51 Type: Definitions* |

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| 52. | Bylaws are:      |  |  | | --- | --- | | A. | The terms by which partnership profits are distributed. |  |  |  | | --- | --- | | **B.** | The rules by which corporations govern themselves. |  |  |  | | --- | --- | | C. | The agreements specifying which partners are general partners and which are limited partners. |  |  |  | | --- | --- | | D. | The documents which set forth the business purpose of a firm. |  |  |  | | --- | --- | | E. | The documents which specify how tax liabilities will be allocated among the owners. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #52 Type: Definitions* |

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| 53. | The agency problem is best defined as a conflict of interest between a firm's:      |  |  | | --- | --- | | A. | Various employees. |  |  |  | | --- | --- | | B. | Various managers. |  |  |  | | --- | --- | | C. | Managers and the firm's employees. |  |  |  | | --- | --- | | **D.** | Stockholders and the firm's managers. |  |  |  | | --- | --- | | E. | Stockholders and the firm's debtors. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #53 Type: Definitions* |

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| 54. | The primary goal of financial management is defined as the:      |  |  | | --- | --- | | **A.** | Maximization of the current value per share of the outstanding stock. |  |  |  | | --- | --- | | B. | Maximization of the current profits per share of the firm. |  |  |  | | --- | --- | | C. | Minimization of the risks associated with company ownership. |  |  |  | | --- | --- | | D. | Maintenance of a steady stream of dividends to the existing shareholders. |  |  |  | | --- | --- | | E. | Minimization of the outstanding debt owed by the firm to third parties. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #54 Type: Definitions* |

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| 55. | An agency problem is said to exist when there is a conflict of interest between \_\_\_\_\_ and \_\_\_\_\_.      |  |  | | --- | --- | | A. | An agent; his or her representative |  |  |  | | --- | --- | | B. | A broker; a dealer |  |  |  | | --- | --- | | **C.** | A principal; his or her agent |  |  |  | | --- | --- | | D. | One shareholder; another shareholder |  |  |  | | --- | --- | | E. | A shareholder; a stakeholder | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #55 Type: Definitions* |

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| 56. | The primary market is defined as the market:      |  |  | | --- | --- | | **A.** | Wherein the original sale of securities by the issuer to the general public occurs. |  |  |  | | --- | --- | | B. | Where stocks and bonds are exchanged between dealers. |  |  |  | | --- | --- | | C. | Mechanism by which a sale of a financial instrument between two shareholders is conducted. |  |  |  | | --- | --- | | D. | Operated by brokers for the benefit of shareholders. |  |  |  | | --- | --- | | E. | Commonly known as the over-the-counter market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #56 Type: Definitions* |

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| 57. | The secondary market is the market wherein:      |  |  | | --- | --- | | A. | One issuer exchanges securities directly with another issuer. |  |  |  | | --- | --- | | B. | The government is either the buyer or the seller of the security. |  |  |  | | --- | --- | | **C.** | Shareholders buy from and sell to other shareholders. |  |  |  | | --- | --- | | D. | The security issuer is the seller and the buyer is a member of the general public. |  |  |  | | --- | --- | | E. | The security issuer is the buyer and the seller is a member of the general public. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #57 Type: Definitions* |

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| 58. | A dealer is a person who:      |  |  | | --- | --- | | A. | Conducts a trade on behalf of another individual. |  |  |  | | --- | --- | | B. | Buys and sells but does not own the commodity being bought or sold. |  |  |  | | --- | --- | | C. | Buys and sells on behalf of the original issuer of the commodity being bought or sold. |  |  |  | | --- | --- | | **D.** | Buys and sells for themselves, at their own risk. |  |  |  | | --- | --- | | E. | Buys and sells strictly on the trading floor of an exchange. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #58 Type: Definitions* |

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| 59. | The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:      |  |  | | --- | --- | | A. | Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | **C.** | Controller. |  |  |  | | --- | --- | | D. | Chairman of the board. |  |  |  | | --- | --- | | E. | Chief executive officer. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #59 Type: Definitions* |

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| 60. | The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:      |  |  | | --- | --- | | **A.** | Treasurer. |  |  |  | | --- | --- | | B. | Director. |  |  |  | | --- | --- | | C. | Controller. |  |  |  | | --- | --- | | D. | Chairman of the board. |  |  |  | | --- | --- | | E. | Chief operations officer. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #60 Type: Definitions* |

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| 61. | The process of planning and managing a firm's long-term investments is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Agency cost analysis. |  |  |  | | --- | --- | | **D.** | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #61 Type: Definitions* |

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| 62. | The mixture of debt and equity used by a firm to finance its operations is called:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | Financial depreciation. |  |  |  | | --- | --- | | C. | Cost analysis. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | **E.** | Capital structure. | |

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| *Difficulty: Basic Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #62 Type: Definitions* |

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| 63. | The management of a firm's short-term assets and liabilities is called:      |  |  | | --- | --- | | **A.** | Working capital management. |  |  |  | | --- | --- | | B. | Debt management. |  |  |  | | --- | --- | | C. | Equity management. |  |  |  | | --- | --- | | D. | Capital budgeting. |  |  |  | | --- | --- | | E. | Capital structure. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #63 Type: Definitions* |

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| 64. | Which one of the following correctly defines the chain of command in a typical corporate organizational structure?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | **B.** | The chief executive officer reports to the board of directors. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The chief operations officer reports to the vice president of production. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #64 Type: Concepts* |

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| 65. | A business formed by two or more individuals who each have unlimited liability for business debts is called a:      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | **C.** | General partnership. |  |  |  | | --- | --- | | D. | Limited partnership. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #65 Type: Definitions* |

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| 66. | The division of profits and losses among the members of a partnership is formalized in the:      |  |  | | --- | --- | | A. | Indemnity clause. |  |  |  | | --- | --- | | B. | Indenture contract. |  |  |  | | --- | --- | | C. | Statement of purpose. |  |  |  | | --- | --- | | **D.** | Partnership agreement. |  |  |  | | --- | --- | | E. | Group charter. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #66 Type: Definitions* |

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| 67. | A business created as a distinct legal entity composed of one or more individuals or entities is called a:      |  |  | | --- | --- | | **A.** | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | General partnership. |  |  |  | | --- | --- | | D. | Limited partnership. |  |  |  | | --- | --- | | E. | Unlimited liability company. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #67 Type: Definitions* |

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| 68. | The corporate document that sets forth the business purpose of a firm is the:      |  |  | | --- | --- | | A. | Indenture contract. |  |  |  | | --- | --- | | B. | Provincial tax agreement. |  |  |  | | --- | --- | | C. | Corporate bylaws. |  |  |  | | --- | --- | | D. | Corporate charter. |  |  |  | | --- | --- | | **E.** | Articles of incorporation. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #68 Type: Definitions* |

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| 69. | Capital structure decisions include which of the following?      |  |  | | --- | --- | | **A.** | Determining the number of shares of stock to issue |  |  |  | | --- | --- | | B. | Determining whether the firm should purchase or lease some equipment |  |  |  | | --- | --- | | C. | Allocating funds to the various divisions within the firm |  |  |  | | --- | --- | | D. | Evaluating the size of inventory to be kept on hand |  |  |  | | --- | --- | | E. | Evaluating the customer credit policy | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #69 Type: Concepts* |

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| 70. | The decision to issue debt rather than additional shares of stock is an example of:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | A net working capital decision. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | A controller's duties. |  |  |  | | --- | --- | | **E.** | The capital structure decision | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #70 Type: Concepts* |

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| 71. | A conflict of interest between the stockholders and management of a firm is called:      |  |  | | --- | --- | | A. | Stockholders' liability. |  |  |  | | --- | --- | | B. | Corporate breakdown. |  |  |  | | --- | --- | | **C.** | The agency problem. |  |  |  | | --- | --- | | D. | Corporate activism. |  |  |  | | --- | --- | | E. | Legal liability. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #71 Type: Definitions* |

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| 72. | A stakeholder is:      |  |  | | --- | --- | | A. | Any person or entity that owns shares of stock of a corporation. |  |  |  | | --- | --- | | B. | Any person or entity that has voting rights based on stock ownership of a corporation. |  |  |  | | --- | --- | | C. | A person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock. |  |  |  | | --- | --- | | D. | A creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm. |  |  |  | | --- | --- | | **E.** | Any person or entity who potentially has a claim on the cash flows of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #72 Type: Definitions* |

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| 73. | The original sale of securities by governments and corporations to the general public occurs in the:      |  |  | | --- | --- | | **A.** | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | C. | Private placement market. |  |  |  | | --- | --- | | D. | Proprietary market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #73 Type: Definitions* |

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| 74. | When one shareholder sells stock directly to another the transaction is said to occur in the:      |  |  | | --- | --- | | A. | Dealer market. |  |  |  | | --- | --- | | B. | Primary market. |  |  |  | | --- | --- | | **C.** | Secondary market. |  |  |  | | --- | --- | | D. | OTC market. |  |  |  | | --- | --- | | E. | TSX market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #74 Type: Definitions* |

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| 75. | A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):      |  |  | | --- | --- | | A. | Primary market. |  |  |  | | --- | --- | | B. | Secondary market. |  |  |  | | --- | --- | | **C.** | Dealer market. |  |  |  | | --- | --- | | D. | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #75 Type: Definitions* |

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| 76. | A market where trading takes place directly between buyers and sellers is called a(n):      |  |  | | --- | --- | | A. | primary market. |  |  |  | | --- | --- | | B. | OTC market. |  |  |  | | --- | --- | | C. | Dealer market. |  |  |  | | --- | --- | | **D.** | Auction market. |  |  |  | | --- | --- | | E. | Liquidation market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #76 Type: Definitions* |

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| 77. | This of the following is an answer to "What are the duties of a financial manager?"  I. Deciding how much interest to pay the holders of the corporation's bonds. II. Deciding the mix of long-term debt and equity. III. Deciding which projects a firm should undertake. IV. Deciding how much short-term debt to use.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I, II, and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | II, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #77 Type: Concepts* |

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| 78. | A financial manager is responsible for deciding whether or not new manufacturing equipment should be purchased to replace existing equipment. The new equipment would reduce labour expenses and would allow the firm to reduce its investment in inventory. Which of the financial management areas would be involved in the decision process?  I. Capital budgeting. II. Capital structure management. III. Working capital management.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #78 Type: Concepts* |

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| 79. | According to the statement of financial position model of the firm, corporate finance may be thought of as the analysis of three primary subject areas. Which of the following correctly lists these areas?      |  |  | | --- | --- | | A. | Capital structure, capital budgeting, security analysis. |  |  |  | | --- | --- | | B. | Capital budgeting, capital structure, capital spending. |  |  |  | | --- | --- | | **C.** | Capital budgeting, capital structure, net working capital. |  |  |  | | --- | --- | | D. | Capital structure, net working capital, capital rationing. |  |  |  | | --- | --- | | E. | Capital budgeting, capital spending, net working capital. | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #79 Type: Concepts* |

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| 80. | Which of the following is NOT considered one of the basic questions of corporate finance?      |  |  | | --- | --- | | A. | What long-term investments should the firm choose? |  |  |  | | --- | --- | | **B.** | At what rate of interest should a firm borrow? |  |  |  | | --- | --- | | C. | Where will the firm get the long-term financing to pay for its investments? |  |  |  | | --- | --- | | D. | What mixture of debt and equity should the firm use to fund its operations? |  |  |  | | --- | --- | | E. | How should the firm manage its working capital, i.e., its everyday financial activities? | |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #80 Type: Concepts* |

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| 81. | In the evaluation of cash flow in a capital budgeting decision, which of the following must be considered?  I. The size of the cash flow. II. The timing of the cash flow. III. The risk of the cash flow.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | **E.** | I, II, III | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #81 Type: Concepts* |

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| 82. | Which of the following combinations of attributes would make a capital expenditure project desirable to a financial manager?  I. The project is worth more to the firm than the cost to acquire it. II. The value of the cash flow generated by the project exceeds the project's cost. III. The project's cash flows have acceptable levels of risk and size, but not timing.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | I and II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #82 Type: Concepts* |

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| 83. | The term capital structure describes:      |  |  | | --- | --- | | **A.** | The mixture of debt and equity a firm uses to finance its operations. |  |  |  | | --- | --- | | B. | The mixture of long-term investments a firm has made. |  |  |  | | --- | --- | | C. | The mix of preferred stock and common stock that makes up the equity account of a firm. |  |  |  | | --- | --- | | D. | The firm's short-term assets and short-term liabilities. |  |  |  | | --- | --- | | E. | The mixture of short-term liabilities a firm uses to finance its short-term assets. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #83 Type: Concepts* |

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| 84. | A financial manager is responsible for determining the firm's appropriate level of inventory. Which of the financial management areas addresses this decision?  I. Capital budgeting. II. Capital structure management. III. Working capital management.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | **C.** | III only |  |  |  | | --- | --- | | D. | I and II only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #84 Type: Concepts* |

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| 85. | Which of the following statements is/are false concerning partnerships?  I. Limited partners are responsible for all debts of the partnership. II. Limited partners generally do not manage the partnership. III. In a limited partnership, all partners share equally in the gains or losses.      |  |  | | --- | --- | | **A.** | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #85 Type: Concepts* |

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| 86. | Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?      |  |  | | --- | --- | | A. | The owners of the corporation have unlimited liability for the firm's debts. |  |  |  | | --- | --- | | B. | It is the simplest to start. |  |  |  | | --- | --- | | **C.** | The corporation has an unlimited life. |  |  |  | | --- | --- | | D. | Dividends received by the corporation's shareholders are tax-exempt. |  |  |  | | --- | --- | | E. | It is more difficult to transfer ownership in a corporation. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #86 Type: Concepts* |

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| 87. | Which of the following is a true statement concerning corporations?      |  |  | | --- | --- | | A. | The equity that can be raised by the corporation is limited to the current shareholders' personal wealth. |  |  |  | | --- | --- | | **B.** | The life of the corporation is unlimited. |  |  |  | | --- | --- | | C. | The corporation has limited liability for business debts. |  |  |  | | --- | --- | | D. | When dividends are paid, corporate profits are taxed once. |  |  |  | | --- | --- | | E. | It is difficult to transfer ownership of corporate shares. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #87 Type: Concepts* |

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| 88. | Sue Folker wants to start a new business decommissioning nuclear warheads and reactors. The work will involve significant hazards, and Sue is concerned about protecting her personal wealth from any losses the business might incur. If she is to be the majority owner of the business how should she structure it?      |  |  | | --- | --- | | **A.** | As a corporation. |  |  |  | | --- | --- | | B. | As a general partnership. |  |  |  | | --- | --- | | C. | As a limited partnership. |  |  |  | | --- | --- | | D. | As a sole proprietorship. |  |  |  | | --- | --- | | E. | As a real estate investment trust. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #88 Type: Concepts* |

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| 89. | Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | **A.** | Sole proprietorship. |  |  |  | | --- | --- | | B. | Corporation. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | D. | Limited liability company. | |

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| *Chapter - Chapter 01 Difficulty: Basic Gradable: automatic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #89 Type: Concepts* |

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| 90. | Which of the following is a true statement concerning a general partnership?  I. Partners are not responsible for the debts of the partnership. II. Partners generally do not manage the partnership. III. The income of a partnership is taxed at the partners' income tax rate.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | III only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #90 Type: Concepts* |

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| 91. | The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?  I. Sole proprietorship. II. Partnership. III. Corporation.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | **C.** | III only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | II and III only | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #91 Type: Concepts* |

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| 92. | Which of the following is considered a benefit of the corporate form of organization?  I. Ease of the transfer of ownership. II. Limited life. III. Double taxation.      |  |  | | --- | --- | | **A.** | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #92 Type: Concepts* |

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| 93. | A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can lose, at most, what she has already invested in a firm.  I. Common stockholder. II. Limited partner. III. General partner. IV. Sole proprietor.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | I and II only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | E. | II and III only | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #93 Type: Concepts* |

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| 94. | When does the double taxation problem faced by corporations exist?      |  |  | | --- | --- | | A. | Whenever a corporation earns a profit, pays taxes on that profit, and then pays interest to its bondholders. |  |  |  | | --- | --- | | **B.** | Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its stockholders who pay personal taxes. |  |  |  | | --- | --- | | C. | Whenever a corporation earns a profit and pays taxes on that profit. |  |  |  | | --- | --- | | D. | Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its tax-exempt shareholders. |  |  |  | | --- | --- | | E. | Whenever stockholders are paid a dividend and are taxed on that dividend income. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #94 Type: Concepts* |

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| 95. | Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?      |  |  | | --- | --- | | A. | Maximize sales. |  |  |  | | --- | --- | | B. | Maximize profits. |  |  |  | | --- | --- | | C. | Avoid financial distress. |  |  |  | | --- | --- | | D. | Maintain steady earnings growth. |  |  |  | | --- | --- | | **E.** | Maximize the current value per share of the existing stock. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #95 Type: Concepts* |

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| 96. | A financial manager of a corporation is considering different operating strategies for the coming year. From a financial management standpoint, which of the following would be her optimal strategy?      |  |  | | --- | --- | | A. | Undertake the plan that would reduce the overall riskiness of the firm. |  |  |  | | --- | --- | | **B.** | Undertake the plan that would maximize the current stock price. |  |  |  | | --- | --- | | C. | Undertake the plan that would result in the largest profits for the year. |  |  |  | | --- | --- | | D. | Undertake the plan that would maximize her personal wealth. |  |  |  | | --- | --- | | E. | Undertake the plan that would lead to the most stable stock price for the year. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #96 Type: Concepts* |

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| 97. | The total market value of the firm's equity is determined by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | The corporate treasurer. |  |  |  | | --- | --- | | B. | The firm's financial manager. |  |  |  | | --- | --- | | C. | The firm's stakeholders. |  |  |  | | --- | --- | | **D.** | The firm's stockholders. |  |  |  | | --- | --- | | E. | Regulatory authorities. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #97 Type: Concepts* |

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| 98. | Which of the following is a type of agency cost?      |  |  | | --- | --- | | **A.** | The cost of an audit of the firm's financial statements. |  |  |  | | --- | --- | | B. | The cost of a corporate jet needed to keep tabs on foreign operations. |  |  |  | | --- | --- | | C. | Salaries paid to the firm's managers. |  |  |  | | --- | --- | | D. | The costs of financing the firm. |  |  |  | | --- | --- | | E. | The cost of buying insurance on the firm's assets. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #98 Type: Concepts* |

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| 99. | Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate the purchase price. Identify the parties to this transaction.      |  |  | | --- | --- | | A. | Mary is the principal and Ann is the agent. |  |  |  | | --- | --- | | B. | Ted is the principal and Ann is the agent. |  |  |  | | --- | --- | | C. | Mary is the agent while Ted and Ann together are principals. |  |  |  | | --- | --- | | **D.** | Ann is the principal and Mary is the agent. |  |  |  | | --- | --- | | E. | Ann is the principal and Ted is the agent. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #99 Type: Concepts* |

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| 100. | The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly,      |  |  | | --- | --- | | A. | The firm may incur some agency costs since the manager will be focused on the market share of the firm rather than acting to maximize earnings. |  |  |  | | --- | --- | | B. | The financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives. |  |  |  | | --- | --- | | C. | This arrangement may be unnecessary, since the goal of the firm is to maximize earnings for shareholders, and that is most likely accomplished through larger market share. |  |  |  | | --- | --- | | **D.** | The manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders. |  |  |  | | --- | --- | | E. | The firm will incur some agency costs if the manager acts to maximize market share. | |

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| *Difficulty: Challenge Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #100 Type: Concepts* |

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| 101. | Which of the following is/are correct regarding agency costs?  I. Indirect costs occur when managers, acting to minimize the risk of the firm, forego investments shareholders would prefer they take. II. Direct costs occur when shareholders must incur costs to monitor the manager's actions. III. Direct costs occur when managers buy assets considered unnecessary by the firm's owners.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | I and II only |  |  |  | | --- | --- | | C. | II only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | **E.** | I, II, and III | |

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| *Difficulty: Challenge Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #101 Type: Concepts* |

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| 102. | Of the following, which statement regarding agency costs is false?      |  |  | | --- | --- | | A. | An agency problem exists when there is a conflict of interest between the stockholders and management of a firm. |  |  |  | | --- | --- | | B. | An agency problem exists when there is a conflict of interest between a principal and an agent. |  |  |  | | --- | --- | | C. | An indirect agency cost occurs when firm management avoids risky projects that would favourably affect the stock price because the managers are worried about keeping their jobs. |  |  |  | | --- | --- | | **D.** | A corporate expenditure that benefits stockholders but harms management is an agency cost. |  |  |  | | --- | --- | | E. | If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #102 Type: Concepts* |

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| 103. | Which of the following help ensure managers act in the best interest of owners?  I. A compensation package for managers that ties their salary to the firm's share price. II. Managers are promoted only if the firm prospers. III. The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management. IV. There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, III, and IV only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Challenge Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #103 Type: Concepts* |

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| 104. | Which of the following is a true statement concerning the economics of ethical decision-making?  I. The higher the probability of detection, the more likely that one will cheat. II. The higher the sanctions imposed if detected, the less likely one is to cheat. III. The expected costs of unethical behaviour are lower if information about cheating is rapidly and widely distributed.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Challenge Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #104 Type: Concepts* |

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| 105. | Which of the following markets is considered a dealer market?      |  |  | | --- | --- | | A. | The Toronto Stock Exchange. |  |  |  | | --- | --- | | **B.** | The over-the-counter (OTC) Market. |  |  |  | | --- | --- | | C. | The real estate market. |  |  |  | | --- | --- | | D. | New York Stock Exchange. |  |  |  | | --- | --- | | E. | The Ontario Securities Commission. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #105 Type: Concepts* |

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| 106. | You are interested in purchasing 100 shares of stock in one of the largest corporations in the Canada. You would most likely purchase the shares in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | **A.** | A secondary market operated as an auction market. |  |  |  | | --- | --- | | B. | A primary market operated as an auction market. |  |  |  | | --- | --- | | C. | A secondary market operated as a dealer market. |  |  |  | | --- | --- | | D. | A primary market operated as a dealer market. |  |  |  | | --- | --- | | E. | A secondary market operated as a money market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #106 Type: Concepts* |

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| 107. | Which of the following does NOT correctly finish this sentence: In Canada, \_\_\_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | The OTC market does not have a central location |  |  |  | | --- | --- | | **B.** | Over-the-counter markets are operated as auction markets |  |  |  | | --- | --- | | C. | Financial markets function as both primary and secondary markets for debt and equity securities |  |  |  | | --- | --- | | D. | New issues of securities occur in primary markets |  |  |  | | --- | --- | | E. | Auction markets have a physical location | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #107 Type: Concepts* |

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| 108. | Which of the following is NOT a general criterion that must be met in order for a firm to be listed on the TSX?      |  |  | | --- | --- | | A. | The firm must have a minimum number of shareholders owning at least 100 shares. |  |  |  | | --- | --- | | B. | The firm must have a minimum number of shares outstanding. |  |  |  | | --- | --- | | C. | The firm must have a minimum market value. |  |  |  | | --- | --- | | **D.** | The firm must have a minimum number of directors. |  |  |  | | --- | --- | | E. | The firm must have a minimum amount of assets. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #108 Type: Concepts* |

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| 109. | Which of the following would be considered a primary market transaction?      |  |  | | --- | --- | | **A.** | A buy order to an investment banker for a new public stock offering |  |  |  | | --- | --- | | B. | A buy order to a broker for shares of a company on the TSX |  |  |  | | --- | --- | | C. | A buy order to a broker for shares of a company on the Venture Exchange |  |  |  | | --- | --- | | D. | A buy order to a dealer for shares of a company OTC |  |  |  | | --- | --- | | E. | A sell order to a broker for a stock listed on the TSX | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #109 Type: Concepts* |

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| 110. | Which of the following is considered a "primary market" transaction?  I. You buy shares in the public offering of a start-up company in the computer industry. II. Your mother sells you the shares she purchased in your uncle's latest business venture. III. You buy shares in Nortel Networks from your closest friend.      |  |  | | --- | --- | | **A.** | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | D. | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #110 Type: Concepts* |

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| 111. | A(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a sale of securities which typically does not require registration with the OSC.      |  |  | | --- | --- | | A. | Initial public offering. |  |  |  | | --- | --- | | B. | Over-the-counter transaction. |  |  |  | | --- | --- | | C. | Primary market transaction. |  |  |  | | --- | --- | | D. | Secondary market transaction. |  |  |  | | --- | --- | | **E.** | Private placement. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #111 Type: Concepts* |

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| 112. | Which of the following would be considered a secondary market transaction?      |  |  | | --- | --- | | A. | Buy or sell orders to a broker for shares listed on the TSX. |  |  |  | | --- | --- | | B. | Buy or sell orders to a broker for shares listed on the NYSE. |  |  |  | | --- | --- | | C. | Buy or sell orders for the purchase of bonds in the over-the-counter market. |  |  |  | | --- | --- | | **D.** | A, B & C. |  |  |  | | --- | --- | | E. | A & C. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #112 Type: Concepts* |

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| 113. | On a typical day in Canada, the largest dollar volume of shares are traded \_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Over the counter. |  |  |  | | --- | --- | | **B.** | On the TSX. |  |  |  | | --- | --- | | C. | On the Venture Exchange. |  |  |  | | --- | --- | | D. | On the NYSE. |  |  |  | | --- | --- | | E. | In primary markets. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #113 Type: Concepts* |

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| 114. | Which of the following is considered a primary market transaction?      |  |  | | --- | --- | | **A.** | A firm sells stock to the public for the first time in an IPO. |  |  |  | | --- | --- | | B. | An investor buys stock in Chrysler Canada from his buddy. |  |  |  | | --- | --- | | C. | Chrysler Canada's stockholders sell some of their shares to Kirk Kirkorian, another investor. |  |  |  | | --- | --- | | D. | On September 25, 1995, 30.8 million shares of stock changed hands on the TSX. |  |  |  | | --- | --- | | E. | Labatt's just announced what their upcoming quarterly dividend payment will be. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #114 Type: Concepts* |

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| 115. | By which of the following methods do chartered banks generate income?  I. From the spread between interest paid on deposits and interest earned on loans. II. From selling life insurance through their branch networks. III. From services provided to corporate clients such as bank guarantees.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | B. | II only |  |  |  | | --- | --- | | C. | I and II only |  |  |  | | --- | --- | | **D.** | I and III only |  |  |  | | --- | --- | | E. | I, II, and III | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #115 Type: Concepts* |

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| 116. | Which of the following is not a Canadian financial institution?      |  |  | | --- | --- | | A. | Trust companies. |  |  |  | | --- | --- | | **B.** | Provincial governments. |  |  |  | | --- | --- | | C. | Mutual funds. |  |  |  | | --- | --- | | D. | Investment dealers. |  |  |  | | --- | --- | | E. | Chartered banks. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #116 Type: Concepts* |

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| 117. | The size, risk, and timing of future cash flows are the key elements evaluated in the:      |  |  | | --- | --- | | **A.** | Capital budgeting process. |  |  |  | | --- | --- | | B. | Cash management process. |  |  |  | | --- | --- | | C. | Analysis of working capital. |  |  |  | | --- | --- | | D. | Capital structure decision. |  |  |  | | --- | --- | | E. | Analysis of current assets. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #117 Type: Concepts* |

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| 118. | Capital structure refers to which of the following issues?  I. From whom should the firm borrow funds? II. How much debt should the firm have in relation to its level of equity? III. What level of current assets is required to maintain the firm's operational level? IV. How much risk is associated with the future cash flows of a project?      |  |  | | --- | --- | | A. | II only |  |  |  | | --- | --- | | B. | III only |  |  |  | | --- | --- | | **C.** | I and II only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #118 Type: Concepts* |

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| 119. | Working capital management is concerned with which statement of financial position accounts?      |  |  | | --- | --- | | A. | Current assets only. |  |  |  | | --- | --- | | B. | Current and long-term assets only. |  |  |  | | --- | --- | | C. | Long-term assets only. |  |  |  | | --- | --- | | **D.** | Current assets and current liabilities only. |  |  |  | | --- | --- | | E. | Current assets, long-term assets and current liabilities only. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #119 Type: Concepts* |

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| 120. | Which one of the following statements concerning a proprietorship is true?      |  |  | | --- | --- | | A. | A proprietorship can be a business jointly owned by two family members. |  |  |  | | --- | --- | | B. | Income from a proprietorship is taxed as a separate entity. |  |  |  | | --- | --- | | **C.** | A proprietor is personally responsible for 100% of the firm's liabilities. |  |  |  | | --- | --- | | D. | A partial transfer of ownership is easier with a proprietorship than with a corporation. |  |  |  | | --- | --- | | E. | Income from a proprietorship is taxed at a lower rate than other personal income. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #120 Type: Concepts* |

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| 121. | Which one of the following statements concerning a partnership is true?      |  |  | | --- | --- | | A. | Under a general partnership, only the key partner is personally liable for the business debts. |  |  |  | | --- | --- | | B. | Limited partners in a limited partnership should be actively involved in management decisions. |  |  |  | | --- | --- | | C. | Income from a limited partnership is taxed as corporate income. |  |  |  | | --- | --- | | D. | A primary advantage of a partnership is the ease of transferring ownership. |  |  |  | | --- | --- | | **E.** | A partnership terminates at the death of any partner. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #121 Type: Concepts* |

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| 122. | It is easiest to raise capital for a project under which form of business organization?      |  |  | | --- | --- | | **A.** | Corporation |  |  |  | | --- | --- | | B. | General partnership |  |  |  | | --- | --- | | C. | Limited partnership |  |  |  | | --- | --- | | D. | Sole proprietorship |  |  |  | | --- | --- | | E. | The form of business organization does NOT affect the ability to raise capital. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #122 Type: Concepts* |

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| 123. | The ultimate responsibility for a corporation rests with:      |  |  | | --- | --- | | A. | The Chairman of the Board. |  |  |  | | --- | --- | | B. | The Board of Directors. |  |  |  | | --- | --- | | C. | The Chief Operations Officer. |  |  |  | | --- | --- | | **D.** | The stockholders. |  |  |  | | --- | --- | | E. | The stakeholders. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #123 Type: Concepts* |

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| 124. | When a corporation issues additional shares of common stock, they do so:      |  |  | | --- | --- | | **A.** | In the primary market. |  |  |  | | --- | --- | | B. | Through a dealer in the secondary market. |  |  |  | | --- | --- | | C. | Through a broker in the secondary market. |  |  |  | | --- | --- | | D. | Only through the OTC market. |  |  |  | | --- | --- | | E. | Only through the private markets. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #124 Type: Concepts* |

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| 125. | Which one of the following statements is true concerning stock exchanges?      |  |  | | --- | --- | | A. | The Toronto Stock Exchange is the largest exchange in the world. |  |  |  | | --- | --- | | B. | NASDAQ listed stocks trade more actively than those listed on the NYSE. |  |  |  | | --- | --- | | C. | The OTC market is physically located in Toronto. |  |  |  | | --- | --- | | D. | The Tokyo Stock Exchange is not a very actively traded upon exchange. |  |  |  | | --- | --- | | **E.** | The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #125 Type: Concepts* |

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| 126. | Which of the following statements concerning dealers are true?  I. Dealers usually buy and sell only for themselves. II. Dealers accept the risks of owning shares of stock. III. The OTC market is a dealer market. IV. Most debt securities trade in dealer markets.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #126 Type: Concepts* |

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| 127. | Which of the following statements concerning auction markets are true?  I. The TSX is an auction market. II. The OTC is an auction market. III. The NYSE is an auction market. IV. Auction markets have a physical location.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | **D.** | I, III, and IV only |  |  |  | | --- | --- | | E. | I, II, and III only | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #127 Type: Concepts* |

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| 128. | Which one of the following statements is correct concerning the listing of stock on an exchange?      |  |  | | --- | --- | | **A.** | The TSX has the most stringent listing requirements of any Canadian stock exchange. |  |  |  | | --- | --- | | B. | Any firm can list their stock on any exchange they desire. |  |  |  | | --- | --- | | C. | All exchanges have the same listing requirements. |  |  |  | | --- | --- | | D. | Listing requirements are established by the Ontario Securities Commission. |  |  |  | | --- | --- | | E. | The number of shareholders is NOT a listing consideration for a stock. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #128 Type: Concepts* |

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| 129. | Which of the following is a disadvantage of the corporate form of ownership?      |  |  | | --- | --- | | A. | Limited liability |  |  |  | | --- | --- | | B. | Ease of transfer of ownership |  |  |  | | --- | --- | | **C.** | Taxation |  |  |  | | --- | --- | | D. | Ability to raise capital |  |  |  | | --- | --- | | E. | The life of the corporation | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #129 Type: Concepts* |

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| 130. | Which of the following are capital structure decisions?  I. Determining the amount of money to borrow in order to finance a 10-year project II. Determining the number of shares of common stock to issue III. Determining when a supplier should be paid IV. Establishing the accounts receivable policies      |  |  | | --- | --- | | **A.** | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | III and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| *Difficulty: Intermediate Gradable: automatic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #130 Type: Concepts* |

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| 131. | Which of the following are working capital decisions?  I. Determining the level of inventory to be kept on hand II. Determining if a supplier's credit terms are acceptable III. Establishing the accounts receivable payment terms IV. Deciding if a new project should be accepted      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II, and III only |  |  |  | | --- | --- | | E. | III and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #131 Type: Concepts* |

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| 132. | The Treasurer:      |  |  | | --- | --- | | A. | Is responsible for overseeing the data processing functions within a firm. |  |  |  | | --- | --- | | **B.** | Has the responsibility for managing the cash for an organization. |  |  |  | | --- | --- | | C. | Must keep current on tax laws since he/she is responsible for managing the taxes for a firm. |  |  |  | | --- | --- | | D. | Must file quarterly financial statements in a timely manner. |  |  |  | | --- | --- | | E. | Reports directly to the Chief Executive Officer of a corporation. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #132 Type: Concepts* |

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| 133. | Financial managers must be concerned with which of the following aspects of cash flows?  I. Amount of the cash flow II. Timing of the cash flow III. Likelihood of the cash flow being received IV. Possibility that only a portion of the expected cash flow will be received      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | II and IV only |  |  |  | | --- | --- | | C. | II, III, and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #133 Type: Concepts* |

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| 134. | Ensuring that a firm has sufficient cash available on a daily basis is part of:      |  |  | | --- | --- | | A. | Capital budgeting. |  |  |  | | --- | --- | | **B.** | Working capital management. |  |  |  | | --- | --- | | C. | Business organization. |  |  |  | | --- | --- | | D. | Capital structure. |  |  |  | | --- | --- | | E. | Organizational structure. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #134 Type: Concepts* |

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| 135. | Two of the primary advantages of a sole proprietorship are the:      |  |  | | --- | --- | | A. | Ease of company formation and limited liability. |  |  |  | | --- | --- | | **B.** | Ease of company formation and less regulation. |  |  |  | | --- | --- | | C. | Ease of ownership transfer and less regulation. |  |  |  | | --- | --- | | D. | Ease of ownership transfer and ease of company formation. |  |  |  | | --- | --- | | E. | Ability to raise capital and less regulation. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #135 Type: Concepts* |

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| 136. | In a limited partnership:      |  |  | | --- | --- | | A. | Only the limited partners are involved in the daily management of the firm. |  |  |  | | --- | --- | | B. | Both general and limited partners are involved in the daily management of the firm. |  |  |  | | --- | --- | | **C.** | A limited partner is liable only for the amount he/she contributed to the partnership. |  |  |  | | --- | --- | | D. | A general partner is liable only for the amount he/she contributed to the partnership. |  |  |  | | --- | --- | | E. | The income earned is taxed like a corporation. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #136 Type: Concepts* |

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| 137. | In a general partnership:      |  |  | | --- | --- | | **A.** | Each partner is personally responsible for all of the firm's debt. |  |  |  | | --- | --- | | B. | Each partner is responsible only for his/her portion of the firm's debt based on ownership percentage. |  |  |  | | --- | --- | | C. | Each partner is liable only for the portion of the total debt he/she agreed in writing to pay. |  |  |  | | --- | --- | | D. | Only the general partner is liable for the firm's debt. |  |  |  | | --- | --- | | E. | None of the partners are personally liable for the firm's debt. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #137 Type: Concepts* |

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| 138. | Which of the following are disadvantages of the partnership form of ownership?      |  |  | | --- | --- | | A. | Personal liability and double taxation |  |  |  | | --- | --- | | **B.** | Personal liability and limited firm life |  |  |  | | --- | --- | | C. | Double taxation and limited firm life |  |  |  | | --- | --- | | D. | Ease of formation and unlimited firm life |  |  |  | | --- | --- | | E. | Ease of formation and ease of ownership transfer | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #138 Type: Concepts* |

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| 139. | Which of the following are advantages of the corporate form of ownership?      |  |  | | --- | --- | | A. | Limited personal liability and limited firm life |  |  |  | | --- | --- | | B. | Ability to raise capital and limited firm life |  |  |  | | --- | --- | | **C.** | Limited personal liability and ability to raise capital |  |  |  | | --- | --- | | D. | Ease of ownership transfer and simplicity of company formation |  |  |  | | --- | --- | | E. | Simplicity of company formation and the ability to raise capital | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #139 Type: Concepts* |

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| 140. | Which one of the following actions best meets the goal of financial management?      |  |  | | --- | --- | | A. | Deciding a firm should be 100% equity financed |  |  |  | | --- | --- | | B. | Delaying cash payments in order to increase the total cash on hand |  |  |  | | --- | --- | | C. | Easing the accounts receivable policies in order to increase current sales |  |  |  | | --- | --- | | **D.** | Accepting a project that enhances the current market value of the firm's stock |  |  |  | | --- | --- | | E. | Issuing additional shares of stock to increase the total cash on hand | |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #140 Type: Concepts* |

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| 141. | Which one of the following actions is the best example of an agency problem?      |  |  | | --- | --- | | **A.** | Paying management bonuses based on the number of store locations opened during the year |  |  |  | | --- | --- | | B. | Paying management bonuses based on the current market value of the firm's stock |  |  |  | | --- | --- | | C. | Accepting a project that enhances both management salaries and the market value of the firm's stock |  |  |  | | --- | --- | | D. | Requiring stockholders approval of all management compensation decisions |  |  |  | | --- | --- | | E. | Basing management bonuses on the attainment of specific financial goals | |

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| *Difficulty: Challenge Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #141 Type: Concepts* |

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| 142. | Which one of the following means of management compensation is designed to help eliminate the agency problem?      |  |  | | --- | --- | | A. | Providing cost of living adjustments |  |  |  | | --- | --- | | B. | Increasing health care benefits |  |  |  | | --- | --- | | **C.** | Offering stock options |  |  |  | | --- | --- | | D. | Providing annual raises |  |  |  | | --- | --- | | E. | Providing a corporate jet | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #142 Type: Concepts* |

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| 143. | The primary purpose of an auction market is to:      |  |  | | --- | --- | | A. | Offer new shares of stock to the general public. |  |  |  | | --- | --- | | B. | Handle private placements of shares of stock. |  |  |  | | --- | --- | | C. | Provide a market place for dealers. |  |  |  | | --- | --- | | D. | Provide electronic trading for dealers. |  |  |  | | --- | --- | | **E.** | Match buyers with sellers. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #143 Type: Concepts* |

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| 144. | The primary purpose of capital budgeting is to:      |  |  | | --- | --- | | A. | Determine the amount of cash and inventory to keep on hand. |  |  |  | | --- | --- | | B. | Estimate the initial cost of a project. |  |  |  | | --- | --- | | C. | Distinguish projects that have at least a five-year life from those that don't. |  |  |  | | --- | --- | | D. | Determine the risk level of a project. |  |  |  | | --- | --- | | **E.** | Identify projects that produce cash flows that exceed the cost of the project. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #144 Type: Concepts* |

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| 145. | An individual who places an order to buy 1000 shares of IBM stock:      |  |  | | --- | --- | | A. | Is involved in a private placement of securities. |  |  |  | | --- | --- | | B. | Is most likely involved in an IPO. |  |  |  | | --- | --- | | **C.** | Is most likely participating in the secondary market. |  |  |  | | --- | --- | | D. | Must have hired a dealer to perform this transaction. |  |  |  | | --- | --- | | E. | Has to be listed as a private dealer. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #145 Type: Concepts* |

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| 146. | Stockholders elect:      |  |  | | --- | --- | | A. | The Chief Executive Officer. |  |  |  | | --- | --- | | **B.** | The Corporate Directors. |  |  |  | | --- | --- | | C. | The Chairman of the Board. |  |  |  | | --- | --- | | D. | The President. |  |  |  | | --- | --- | | E. | All senior managers. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #146 Type: Concepts* |

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| 147. | Which one of the following questions would most likely be the responsibility of the financial manager?      |  |  | | --- | --- | | A. | Which product markets should be expanded? |  |  |  | | --- | --- | | B. | What price should be charged for a new product? |  |  |  | | --- | --- | | C. | Which employees should work overtime? |  |  |  | | --- | --- | | **D.** | How should the firm finance a new distribution center? |  |  |  | | --- | --- | | E. | Where should a new store be located? | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #147 Type: Concepts* |

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| 148. | The treasurer of a firm is most apt to report to the:      |  |  | | --- | --- | | A. | controller. |  |  |  | | --- | --- | | B. | President. |  |  |  | | --- | --- | | C. | Chief operating officer. |  |  |  | | --- | --- | | D. | Chief executive officer. |  |  |  | | --- | --- | | **E.** | Vice president of finance. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #148 Type: Concepts* |

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| 149. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | Ascertaining the optimal level of inventory |  |  |  | | --- | --- | | B. | Determining which bank has the best loan terms |  |  |  | | --- | --- | | C. | Evaluating the minimal amount of cash which the firm should keep on hand |  |  |  | | --- | --- | | **D.** | Deciding whether or not the firm should open another retail outlet |  |  |  | | --- | --- | | E. | Establishing the length of time for which store credit will be offered | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #149 Type: Concepts* |

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| 150. | Which of the following should be considered when making a capital budgeting decision?  I. The amount of cash flows which will be required or obtained II. The timing of all cash inflows and outflows III. The amount of debt versus the amount of equity which should be obtained IV. The risk associated with the expected cash inflows      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | D. | II and IV only |  |  |  | | --- | --- | | **E.** | I, II, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #150 Type: Concepts* |

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| 151. | Luis has just decided that his firm should obtain $10 million in bank financing from the Atlantic Bank and Trust and should issue $25 million in new equity shares. Luis has just made a(n) \_\_\_\_\_ decision.      |  |  | | --- | --- | | A. | Working capital |  |  |  | | --- | --- | | **B.** | Capital structure |  |  |  | | --- | --- | | C. | Operational |  |  |  | | --- | --- | | D. | Capital budgeting |  |  |  | | --- | --- | | E. | Marketing | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #151 Type: Concepts* |

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| 152. | Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing $.40 for every $1 invested by shareholders. Mr. Webster was referring to the \_\_\_\_\_ policy of the firm.      |  |  | | --- | --- | | A. | Capital budgeting |  |  |  | | --- | --- | | B. | Working capital |  |  |  | | --- | --- | | **C.** | Capital structure |  |  |  | | --- | --- | | D. | Capital investment |  |  |  | | --- | --- | | E. | Financial planning | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #152 Type: Concepts* |

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| 153. | Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for:      |  |  | | --- | --- | | A. | Allocating manufacturing overhead. |  |  |  | | --- | --- | | B. | Controlling labour costs. |  |  |  | | --- | --- | | C. | Pricing manufactured goods. |  |  |  | | --- | --- | | D. | Managing long-term debt. |  |  |  | | --- | --- | | **E.** | Overseeing accounts payable. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #153 Type: Concepts* |

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| 154. | Working capital management:      |  |  | | --- | --- | | **A.** | Includes the daily oversight of a firm's cash requirements. |  |  |  | | --- | --- | | B. | Involves the determination of how much long-term debt should be issued. |  |  |  | | --- | --- | | C. | Is the oversight of a firm's long-term assets. |  |  |  | | --- | --- | | D. | Deals with the refinancing of the firm's debt if interest rates decline. |  |  |  | | --- | --- | | E. | Deals with the allocation of equipment to various jobs on a daily basis. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #154 Type: Concepts* |

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| 155. | Which one of the following is a correct statement concerning a sole proprietorship?      |  |  | | --- | --- | | A. | A sole proprietorship is relatively difficult to form. |  |  |  | | --- | --- | | B. | The profits earned by a sole proprietorship are subject to double taxation. |  |  |  | | --- | --- | | C. | A sole proprietorship is more highly regulated than a corporation. |  |  |  | | --- | --- | | D. | The losses incurred by a sole proprietor are limited to the amount invested in the firm. |  |  |  | | --- | --- | | **E.** | It may be difficult to transfer the ownership of a sole proprietorship. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #155 Type: Concepts* |

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| 156. | Which of the following statements related to partnerships are correct?  I. Partnerships have unlimited lives due to the multiple form of ownership. II. Partnership income is treated as personal income of the partners. III. General partners have limited liability for the debts of the partnership. IV. A limited partner can lose his or her investment in the partnership.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | **B.** | II and IV only |  |  |  | | --- | --- | | C. | III and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #156 Type: Concepts* |

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| 157. | Which one of the following is a disadvantage of a partnership?      |  |  | | --- | --- | | A. | Double taxation. |  |  |  | | --- | --- | | B. | Ability to raise capital as compared to a sole proprietorship. |  |  |  | | --- | --- | | **C.** | Growth limitations due to the inability to raise investment capital. |  |  |  | | --- | --- | | D. | The debt obligations of a limited partner. |  |  |  | | --- | --- | | E. | Complexity and cost of partnership formation. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #157 Type: Concepts* |

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| 158. | Which of the following are common characteristics between a sole proprietorship and a general partnership?  I. Method of taxation. II. Limited life of business entity. III. Personal liability. IV. Division of net profits.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II, and III only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #158 Type: Concepts* |

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| 159. | A corporation:  I. Is subject to double taxation. II. Can be sued. III. Can have an unlimited life. IV. Can be a general partner in a partnership.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | II, III, and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #159 Type: Concepts* |

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| 160. | Robert Fischer is one of the owners of a firm which generated $18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert must be a partial owner of a:      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | **D.** | Non-dividend paying corporation. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| *Difficulty: Challenge Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #160 Type: Concepts* |

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| 161. | The articles of incorporation include which of the following items?  I. The maximum number of shares of stock that can be issued II. A description of the method to be used to elect individuals to the board of directors. III. The intended life of the corporation. IV. The name of the corporation.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | **D.** | I, III, and IV only |  |  |  | | --- | --- | | E. | I, II, and III only | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #161 Type: Concepts* |

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| 162. | Which one of the following actions by a financial manager is most aligned with the goal of financial management?      |  |  | | --- | --- | | A. | Increasing the size of a firm by acquiring a non-profitable competitor. |  |  |  | | --- | --- | | B. | Increasing the sales of the firm by expanding the company's sales force. |  |  |  | | --- | --- | | C. | Issuing additional shares of stock to repay all of the firm's long-term debt. |  |  |  | | --- | --- | | **D.** | Improving the efficiency of the company such that the value of the stock increases. |  |  |  | | --- | --- | | E. | Increasing the bonuses paid to the top executives as the size of the firm increases. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #162 Type: Concepts* |

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| 163. | Which one of the following groups is the goal of financial management centered around?      |  |  | | --- | --- | | A. | Potential new shareholders. |  |  |  | | --- | --- | | **B.** | Existing shareholders. |  |  |  | | --- | --- | | C. | Current creditors. |  |  |  | | --- | --- | | D. | The CRA. |  |  |  | | --- | --- | | E. | Existing management. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #163 Type: Concepts* |

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| 164. | Which one of the following best illustrates the agency problem?      |  |  | | --- | --- | | A. | An employee offers a suggestion which will save the company money and reduce the stress of his job. |  |  |  | | --- | --- | | B. | The company creates a management bonus program whereby managers are rewarded when the market price of the firm's stock rises. |  |  |  | | --- | --- | | **C.** | Management rejects a merger which was desired by the shareholders. |  |  |  | | --- | --- | | D. | Management expands its operations overseas which is favourably received by the financial markets. |  |  |  | | --- | --- | | E. | Management reduces the risk level of the firm while maintaining a steady stock price. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #164 Type: Concepts* |

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| 165. | To avoid the agency problem, managers should take actions:      |  |  | | --- | --- | | **A.** | Which adds value to the firm. |  |  |  | | --- | --- | | B. | Only after the president has approved them. |  |  |  | | --- | --- | | C. | Only if they increase the market share of the firm. |  |  |  | | --- | --- | | D. | Which add to the size of the firm's workforce. |  |  |  | | --- | --- | | E. | Only if management jobs will not be jeopardized. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #165 Type: Concepts* |

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| 166. | Managers who place the interest of the shareholders first, will tend to:      |  |  | | --- | --- | | A. | Be replaced on a routine basis. |  |  |  | | --- | --- | | B. | Decline all offers to buy the firm. |  |  |  | | --- | --- | | C. | Realize minimal value from the stock options they are granted. |  |  |  | | --- | --- | | D. | Reward employees for unethical behavior if that behavior increases the firm's net income. |  |  |  | | --- | --- | | **E.** | Be in greater demand and receive higher compensation. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #166 Type: Concepts* |

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| 167. | Which of the following are agency costs?  I. Flying an executive overseas without a genuine business purpose for doing so. II. Paying more than the actual market value to purchase a competitor. III. Hiring outside auditors to monitor the firm's financial activities. IV. Protecting management jobs which could effectively be eliminated.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #167 Type: Concepts* |

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| 168. | Which of the following are stakeholders of the BBX grocery store?  I. Individuals and institutions who own BBX stock. II. A bank to whom BBX owes money. III. The government. IV. An individual who lives next door to and shops in a BBX store.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and IV only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #168 Type: Concepts* |

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| 169. | Which one of the following transactions would occur in the primary market?      |  |  | | --- | --- | | A. | The gifting of ABC Co. shares by a grandmother to her grandchildren. |  |  |  | | --- | --- | | B. | A financial institution selling shares of OPQ stock to another financial institution. |  |  |  | | --- | --- | | C. | An individual selling shares of JKL stock to an existing JKL shareholder. |  |  |  | | --- | --- | | D. | A financial institution buying shares of LM stock from an LM executive. |  |  |  | | --- | --- | | **E.** | KM Co. selling new shares of stock to a financial institution | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #169 Type: Concepts* |

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| 170. | NASDAQ is:      |  |  | | --- | --- | | A. | The largest financial market in the U.S. in terms of the total value of listed stocks. |  |  |  | | --- | --- | | B. | Both an OTC and an auction market. |  |  |  | | --- | --- | | C. | An electronic market trading solely in corporate and government bonds. |  |  |  | | --- | --- | | **D.** | An electronic market which has no physical location. |  |  |  | | --- | --- | | E. | A market with far fewer listings than the NYSE. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #170 Type: Concepts* |

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| 171. | Which of the following questions are addressed by financial managers?  I. How long will it take to produce a product? II. How long should customers be given to pay for their credit purchases? III. Should the firm borrow more money? IV. Should the firm build a new factory?      |  |  | | --- | --- | | A. | I and IV only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | **D.** | II, III, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #171 Type: Concepts* |

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| 172. | The treasurer and the controller of a corporation generally report to the:      |  |  | | --- | --- | | A. | Board of directors. |  |  |  | | --- | --- | | B. | Chairman of the board. |  |  |  | | --- | --- | | C. | Chief executive officer. |  |  |  | | --- | --- | | D. | President. |  |  |  | | --- | --- | | **E.** | Vice president of finance. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #172 Type: Concepts* |

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| 173. | Which one of the following statements is correct concerning the organizational structure of a corporation?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | **B.** | The chief executive officer reports to the board of directors. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The chief operations officer reports to the vice president of production. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #173 Type: Concepts* |

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| 174. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | Determining how much debt should be borrowed from a particular lender. |  |  |  | | --- | --- | | **B.** | Deciding whether or not to open a new store. |  |  |  | | --- | --- | | C. | Deciding when to repay a long-term debt. |  |  |  | | --- | --- | | D. | Determining how much inventory to keep on hand. |  |  |  | | --- | --- | | E. | Determining how much money should be kept in the checking account. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #174 Type: Concepts* |

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| 175. | When considering a capital budgeting project the financial manager should consider:      |  |  | | --- | --- | | A. | Only the size of the project. |  |  |  | | --- | --- | | B. | Only the timing of the project cash flows. |  |  |  | | --- | --- | | C. | Only the risk of the project cash flows. |  |  |  | | --- | --- | | D. | Only the size and timing of the project cash flows. |  |  |  | | --- | --- | | **E.** | The size, timing, and risk of the project cash flows. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #175 Type: Concepts* |

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| 176. | Capital structure decisions include consideration of the:  I. Amount of long-term debt to assume. II. Cost of acquiring funds. III. Current assets and liabilities. IV. Net working capital.      |  |  | | --- | --- | | **A.** | I and II only |  |  |  | | --- | --- | | B. | II and III only |  |  |  | | --- | --- | | C. | III and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #176 Type: Concepts* |

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| 177. | The decision of which lender to use and which type of long-term loan is best for a project is part of:      |  |  | | --- | --- | | A. | Working capital management. |  |  |  | | --- | --- | | B. | The net working capital decision. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | A controller's duties. |  |  |  | | --- | --- | | **E.** | The capital structure decision. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #177 Type: Concepts* |

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| 178. | Working capital management includes decisions concerning which of the following?  I. Accounts payable. II. Long-term debt. III. Accounts receivable. IV. Inventory.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | D. | I, II, and III only |  |  |  | | --- | --- | | **E.** | I, III, and IV only | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #178 Type: Concepts* |

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| 179. | Working capital management:      |  |  | | --- | --- | | A. | Ensures that sufficient equipment is available to produce the amount of product desired on a daily basis. |  |  |  | | --- | --- | | B. | Ensures that long-term debt is acquired at the lowest possible cost. |  |  |  | | --- | --- | | C. | Ensures that dividends are paid to all stockholders on an annual basis. |  |  |  | | --- | --- | | D. | Balances the amount of company debt to the amount of available equity. |  |  |  | | --- | --- | | **E.** | Concerned with having sufficient funds to operate the business on a daily basis. | |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #179 Type: Concepts* |

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| 180. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | A sole proprietorship is the least common form of business ownership. |  |  |  | | --- | --- | | B. | The profits of a sole proprietorship are taxed twice. |  |  |  | | --- | --- | | C. | The owners of a sole proprietorship share profits as established by the partnership agreement. |  |  |  | | --- | --- | | **D.** | The owner of a sole proprietorship may be forced to sell his/her personal assets to pay company debts. |  |  |  | | --- | --- | | E. | A sole proprietorship is often structured as a limited liability company. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #180 Type: Concepts* |

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| 181. | Which one of the following statements is correct concerning corporations?      |  |  | | --- | --- | | **A.** | The largest firms are usually corporations. |  |  |  | | --- | --- | | B. | The majority of firms are corporations. |  |  |  | | --- | --- | | C. | The stockholders are usually the managers of a corporation. |  |  |  | | --- | --- | | D. | The ability of a corporation to raise capital is quite limited. |  |  |  | | --- | --- | | E. | The income of a corporation is taxed as personal income of the stockholders | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #181 Type: Concepts* |

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| 182. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | **A.** | The life of the firm is limited to the life span of the owner. |  |  |  | | --- | --- | | B. | The owner can generally raise large sums of capital quite easily. |  |  |  | | --- | --- | | C. | The ownership of the firm is easy to transfer to another individual. |  |  |  | | --- | --- | | D. | The company must pay separate taxes from those paid by the owner. |  |  |  | | --- | --- | | E. | The legal costs to form a sole proprietorship are quite substantial. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #182 Type: Concepts* |

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| 183. | Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?      |  |  | | --- | --- | | A. | Entitlement to a larger portion of the partnership's income |  |  |  | | --- | --- | | B. | Ability to manage the day-to-day affairs of the business |  |  |  | | --- | --- | | C. | No potential financial loss |  |  |  | | --- | --- | | D. | Greater management responsibility |  |  |  | | --- | --- | | **E.** | Liability for firm debts limited to the capital invested | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #183 Type: Concepts* |

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| 184. | A general partner:      |  |  | | --- | --- | | A. | Has less legal liability than a limited partner. |  |  |  | | --- | --- | | **B.** | Has more management responsibility than a limited partner. |  |  |  | | --- | --- | | C. | Faces double taxation whereas a limited partner does not. |  |  |  | | --- | --- | | D. | Cannot lose more than the amount of his/her equity investment. |  |  |  | | --- | --- | | E. | Is the term applied only to corporations which invest in partnerships. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #184 Type: Concepts* |

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| 185. | A partnership:      |  |  | | --- | --- | | A. | Is taxed the same as a corporation. |  |  |  | | --- | --- | | B. | Agreement defines whether the business income will be taxed like a partnership or a corporation. |  |  |  | | --- | --- | | **C.** | Terminates at the death of any general partner. |  |  |  | | --- | --- | | D. | Has less of an ability to raise capital than a proprietorship. |  |  |  | | --- | --- | | E. | Allows for easy transfer of interest from one general partner to another. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #185 Type: Concepts* |

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| 186. | Which of the following are disadvantages of a partnership?  I. Limited life of the firm. II. Personal liability for firm debt. III. Greater ability to raise capital than a sole proprietorship. IV. Lack of ability to transfer partnership interest.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | II and III only |  |  |  | | --- | --- | | **D.** | I, II, and IV only |  |  |  | | --- | --- | | E. | I, III, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #186 Type: Concepts* |

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| 187. | Which of the following are advantages of the corporate form of business ownership?  I. Limited liability for firm debt. II. Double taxation. III. Ability to raise capital. IV. Unlimited firm life.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | D. | II, III, and IV only |  |  |  | | --- | --- | | **E.** | I, III, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #187 Type: Concepts* |

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| 188. | Which one of the following statements is correct concerning corporations?      |  |  | | --- | --- | | **A.** | The largest firms are usually corporations. |  |  |  | | --- | --- | | B. | The majority of firms are corporations. |  |  |  | | --- | --- | | C. | The stockholders are usually the managers of a corporation. |  |  |  | | --- | --- | | D. | The ability of a corporation to raise capital is quite limited. |  |  |  | | --- | --- | | E. | The income of a corporation is taxed as personal income of the stockholders. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #188 Type: Concepts* |

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| 189. | Which one of the following statements is correct?      |  |  | | --- | --- | | A. | Both partnerships and corporations incur double taxation. |  |  |  | | --- | --- | | **B.** | Both sole proprietorships and partnerships are taxed in a similar fashion. |  |  |  | | --- | --- | | C. | Partnerships are the most complicated type of business to form. |  |  |  | | --- | --- | | D. | Both partnerships and corporations have bylaws. |  |  |  | | --- | --- | | E. | All types of business formations have limited lives. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #189 Type: Concepts* |

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| 190. | The articles of incorporation:      |  |  | | --- | --- | | A. | Can be used to remove company management. |  |  |  | | --- | --- | | B. | Are amended annually by the company stockholders. |  |  |  | | --- | --- | | **C.** | Set forth the number of shares of stock that can be issued. |  |  |  | | --- | --- | | D. | Set forth the rules by which the corporation regulates its existence. |  |  |  | | --- | --- | | E. | Can set forth the conditions under which the firm can avoid double taxation. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #190 Type: Concepts* |

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| 191. | The bylaws:      |  |  | | --- | --- | | A. | Establish the name of the corporation. |  |  |  | | --- | --- | | B. | Are rules which apply only to limited liability companies. |  |  |  | | --- | --- | | C. | Set forth the purpose of the firm. |  |  |  | | --- | --- | | **D.** | Mandate the procedure for electing corporate directors. |  |  |  | | --- | --- | | E. | Set forth the procedure by which the stockholders elect the senior managers of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #191 Type: Concepts* |

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| 192. | Which one of the following business types is best suited to raising large amounts of capital?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | Limited liability company. |  |  |  | | --- | --- | | **C.** | Corporation. |  |  |  | | --- | --- | | D. | General partnership. |  |  |  | | --- | --- | | E. | Limited partnership. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #192 Type: Concepts* |

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| 193. | Which type of business organization has all the respective rights and privileges of a legal person?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | **D.** | Corporation. |  |  |  | | --- | --- | | E. | Limited liability company. | |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #193 Type: Concepts* |

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| 194. | Financial managers should strive to maximize the current value per share of the existing stock because:      |  |  | | --- | --- | | A. | Doing so guarantees the company will grow in size at the maximum possible rate. |  |  |  | | --- | --- | | B. | Doing so increases the salaries of all the employees. |  |  |  | | --- | --- | | **C.** | They have been hired for the purpose of representing the interest of the current shareholders. |  |  |  | | --- | --- | | D. | Doing so means the firm is growing in size faster than its competitors. |  |  |  | | --- | --- | | E. | The managers often receive shares of stock as part of their compensation. | |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #194 Type: Concepts* |

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| 195. | The decisions made by financial managers should all be ones which increase the:      |  |  | | --- | --- | | A. | Size of the firm. |  |  |  | | --- | --- | | B. | Growth rate of the firm. |  |  |  | | --- | --- | | C. | Marketability of the managers. |  |  |  | | --- | --- | | **D.** | Market value of the existing owners' equity. |  |  |  | | --- | --- | | E. | Financial distress of the firm. | |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #195 Type: Concepts* |

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| 196. | Which one of the following actions by a financial manager creates an agency problem?      |  |  | | --- | --- | | A. | Refusing to borrow money when doing so will create losses for the firm. |  |  |  | | --- | --- | | B. | Refusing to lower selling prices if doing so will reduce the net profits. |  |  |  | | --- | --- | | **C.** | Agreeing to expand the company at the expense of stockholders' value. |  |  |  | | --- | --- | | D. | Agreeing to pay bonuses based on the market value of the company stock. |  |  |  | | --- | --- | | E. | Increasing current costs in order to increase the market value of the stockholders' equity. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #196 Type: Concepts* |

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| 197. | Which of the following help convince managers to work in the best interest of the stockholders?  I. Compensation based on the value of the stock. II. Stock option plans. III. Threat of a company takeover. IV. Threat of a proxy fight.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | III and IV only |  |  |  | | --- | --- | | C. | I, II, and III only |  |  |  | | --- | --- | | D. | I, III, and IV only |  |  |  | | --- | --- | | **E.** | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #197 Type: Concepts* |

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| 198. | Which form of business structure faces the greatest agency problems?      |  |  | | --- | --- | | A. | Sole proprietorship. |  |  |  | | --- | --- | | B. | General partnership. |  |  |  | | --- | --- | | C. | Limited partnership. |  |  |  | | --- | --- | | **D.** | Corporation. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| *Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #198 Type: Concepts* |

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| 199. | Which of the following are agency costs?  I. Foregoing an investment opportunity which would add to the market value of the owner's equity. II. Paying a dividend to each of the existing shareholders. III. Purchasing new equipment which increases the value of each share of stock. IV. Hiring outside auditors to verify the accuracy of the company financial statements.      |  |  | | --- | --- | | A. | II and III only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | **C.** | I and IV only |  |  |  | | --- | --- | | D. | II and IV only |  |  |  | | --- | --- | | E. | I, II, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #199 Type: Concepts* |

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| 200. | Which of the following represent cash outflows from a firm?  I. Issuance of securities. II. Payment of dividends. III. New loan proceeds. IV. Payment of government taxes.      |  |  | | --- | --- | | A. | I and III only |  |  |  | | --- | --- | | **B.** | II and IV only |  |  |  | | --- | --- | | C. | I and IV only |  |  |  | | --- | --- | | D. | I, II, and IV only |  |  |  | | --- | --- | | E. | II, III, and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #200 Type: Concepts* |

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| 201. | Which one of the following is a primary market transaction?      |  |  | | --- | --- | | A. | A dealer selling shares of stock to an individual investor. |  |  |  | | --- | --- | | **B.** | A dealer buying newly issued shares of stock from a corporation. |  |  |  | | --- | --- | | C. | An individual investor selling shares of stock to another individual. |  |  |  | | --- | --- | | D. | A bank selling shares of a medical firm to an individual. |  |  |  | | --- | --- | | E. | A sole proprietor buying shares of stock from an individual investor. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #201 Type: Concepts* |

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| 202. | Which of the following statements concerning auction markets is (are) correct?  I. NASDAQ is an auction market. II. The TSX is an auction market. III. All trades involve a dealer in an auction market. IV. An auction market is called an over-the-counter market.      |  |  | | --- | --- | | A. | I only |  |  |  | | --- | --- | | **B.** | II only |  |  |  | | --- | --- | | C. | I and III only |  |  |  | | --- | --- | | D. | II and III only |  |  |  | | --- | --- | | E. | II and IV only | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #202 Type: Concepts* |

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| 203. | Which one of the following statements concerning stock exchanges is correct?      |  |  | | --- | --- | | A. | The NYSE has more listed stocks than NASDAQ. |  |  |  | | --- | --- | | B. | The TSX is primarily a dealer market. |  |  |  | | --- | --- | | C. | The exchange with the strictest listing requirements is NASDAQ. |  |  |  | | --- | --- | | **D.** | Some large companies are listed on NASDAQ. |  |  |  | | --- | --- | | E. | Most debt securities are traded on the TSX. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #203 Type: Concepts* |

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| 204. | Dealer markets:      |  |  | | --- | --- | | A. | Are reserved strictly for trading debt securities. |  |  |  | | --- | --- | | B. | Only exist outside of Canada. |  |  |  | | --- | --- | | **C.** | Are called over-the-counter markets. |  |  |  | | --- | --- | | D. | Include NASDAQ and the New York Stock Exchange. |  |  |  | | --- | --- | | E. | List only the securities of the largest firms. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #204 Type: Concepts* |

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| 205. | Which one of the following statements is correct concerning the TSX?      |  |  | | --- | --- | | **A.** | A firm is expected to have a market value for its publicly held shares of at least $2 million to be listed on the TSX. |  |  |  | | --- | --- | | B. | The TSX is the largest dealer market for listed securities in Canada. |  |  |  | | --- | --- | | C. | The TSX is the second largest stock exchange in the world. |  |  |  | | --- | --- | | D. | Any corporation desiring to be listed on the TSX can do so. |  |  |  | | --- | --- | | E. | The TSX is an over-the-counter exchange functioning as both a primary and a secondary market. | |

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| *Difficulty: Basic Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #205 Type: Concepts* |

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| 206. | Which of the following statements concerning NASDAQ are correct?  I. Most smaller firms are listed on NASDAQ rather than on the NYSE. II. NASDAQ is an electronic market. III. NASDAQ is an auction market. IV. NASDAQ is an OTC market.      |  |  | | --- | --- | | A. | I and II only |  |  |  | | --- | --- | | B. | I and III only |  |  |  | | --- | --- | | C. | II and IV only |  |  |  | | --- | --- | | **D.** | I, II, and IV only |  |  |  | | --- | --- | | E. | I, II, III, and IV | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #206 Type: Concepts* |

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| 207. | Cash flow from a firm's assets can be:      |  |  | | --- | --- | | A. | Reinvested to other companies. |  |  |  | | --- | --- | | B. | Paid out as interest. |  |  |  | | --- | --- | | C. | Distributed to bondholders. |  |  |  | | --- | --- | | D. | Invested in money market funds. |  |  |  | | --- | --- | | **E.** | Reinvested back in the company. |   See Figure 1.3 |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #207 Type: Concepts* |

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| 208. | The area of corporate finance concerned purchasing and selling stocks and bonds is called:      |  |  | | --- | --- | | **A.** | Investments. |  |  |  | | --- | --- | | B. | Municipal finance. |  |  |  | | --- | --- | | C. | International finance. |  |  |  | | --- | --- | | D. | Institutional finance. |  |  |  | | --- | --- | | E. | Strategic finance. | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #208 Type: Concepts* |

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| 209. | The purchase and sale of shares between investors are done in which market?      |  |  | | --- | --- | | **A.** | Secondary market. |  |  |  | | --- | --- | | B. | Foreign exchange market. |  |  |  | | --- | --- | | C. | Debt market. |  |  |  | | --- | --- | | D. | Derivatives market. |  |  |  | | --- | --- | | E. | Tertiary market. | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #209 Type: Concepts* |

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| 210. | The mix of debt and equity by which a corporation is financed refers to the firm's:      |  |  | | --- | --- | | A. | Cash management. |  |  |  | | --- | --- | | **B.** | Capital structure. |  |  |  | | --- | --- | | C. | Capital budgeting. |  |  |  | | --- | --- | | D. | Working capital management. |  |  |  | | --- | --- | | E. | Leverage management. | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #210 Type: Concepts* |

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| 211. | Which of the following is not a capital budgeting question?      |  |  | | --- | --- | | A. | The choice of which long-term assets to purchase. |  |  |  | | --- | --- | | B. | What type of business a firm wants to operate. |  |  |  | | --- | --- | | C. | The dollar obtained by putting long-term assets to use. |  |  |  | | --- | --- | | D. | The percentage return obtained by putting long-term assets to use. |  |  |  | | --- | --- | | **E.** | Credit policy to provide. | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #211 Type: Concepts* |

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| 212. | What is not a working capital question that must be answered?      |  |  | | --- | --- | | A. | How much cash and inventory should be kept on hand? |  |  |  | | --- | --- | | B. | Should we sell on credit? |  |  |  | | --- | --- | | C. | To whom should credit be extended to? |  |  |  | | --- | --- | | **D.** | Net present value (NPV) and internal rate of return (IRR) of a long-term project |  |  |  | | --- | --- | | E. | Length of credit terms to provide | |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #212 Type: Concepts* |

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| 213. | Which of the following is incorrect regarding employee stock options?      |  |  | | --- | --- | | A. | It allows management to purchase shares at a fixed price over a period of time. |  |  |  | | --- | --- | | B. | It provides the manager with an ownership stake in the company. |  |  |  | | --- | --- | | C. | Options are meant to align the manager's and actions with shareholders' interests. |  |  |  | | --- | --- | | D. | Many believe management are already overpaid. |  |  |  | | --- | --- | | **E.** | Many believe management are underpaid and stock options will benefit pay. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #213 Type: Concepts* |

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| 214. | Which of the following is disadvantage of a sole proprietorship?      |  |  | | --- | --- | | A. | The owner receiving all the after-tax profit. |  |  |  | | --- | --- | | **B.** | Unlimited liability. |  |  |  | | --- | --- | | C. | Quick decision making. |  |  |  | | --- | --- | | D. | Can be created through a simple business license. |  |  |  | | --- | --- | | E. | Less reliance on partners. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #214 Type: Concepts* |

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| 215. | Double taxation refers to which of the following scenarios?      |  |  | | --- | --- | | A. | Both bondholders and shareholders must pay taxes. |  |  |  | | --- | --- | | B. | The corporation pays taxes on earnings, and creditors pay taxes on interest received. |  |  |  | | --- | --- | | **C.** | The corporation pays taxes on its earnings, and shareholders pay taxes on dividends. |  |  |  | | --- | --- | | D. | The corporation pays taxes on revenues and expenses. |  |  |  | | --- | --- | | E. | The corporation pays taxes on revenues and earnings. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #215 Type: Concepts* |

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| 216. | In corporate agency theory, managers are \_\_\_\_\_\_\_\_\_\_, and owners are \_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Bondholders, shareholder. |  |  |  | | --- | --- | | B. | Shareholder, bondholders. |  |  |  | | --- | --- | | **C.** | Agents, principals. |  |  |  | | --- | --- | | D. | Principals, agents. |  |  |  | | --- | --- | | E. | Agents, contractors. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #216 Type: Concepts* |

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| 217. | What are the two types of primary market transactions that Corporations engage in?      |  |  | | --- | --- | | A. | Primary and secondary placements. |  |  |  | | --- | --- | | B. | Debt and equity placements. |  |  |  | | --- | --- | | **C.** | Public offerings and private placements. |  |  |  | | --- | --- | | D. | Staggered and orderly offerings. |  |  |  | | --- | --- | | E. | Dutch auctions and orderly offerings. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #217 Type: Concepts* |

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| 218. | Double taxation refers to which of the following scenarios?      |  |  | | --- | --- | | A. | Both bondholders and shareholders must pay taxes. |  |  |  | | --- | --- | | B. | The corporation pays taxes on earnings, and creditors pay taxes on interest received. |  |  |  | | --- | --- | | **C.** | The corporation pays taxes on its earnings, and shareholders pay taxes on dividends. |  |  |  | | --- | --- | | D. | The corporation pays taxes on revenues and expenses. |  |  |  | | --- | --- | | E. | The corporation pays taxes on revenues and earnings. | |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #218 Type: Concepts* |

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| 219. | In corporate agency theory, managers are \_\_\_\_\_\_\_\_\_\_, and owners are \_\_\_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | Bondholders, shareholder. |  |  |  | | --- | --- | | B. | Shareholder, bondholders. |  |  |  | | --- | --- | | **C.** | Agents, principals. |  |  |  | | --- | --- | | D. | Principals, agents. |  |  |  | | --- | --- | | E. | Agents, contractors. | |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #219 Type: Concepts* |

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| 220. | What are the two types of primary market transactions that Corporations engage in?      |  |  | | --- | --- | | A. | Primary and secondary placements. |  |  |  | | --- | --- | | B. | Debt and equity placements. |  |  |  | | --- | --- | | **C.** | Public offerings and private placements. |  |  |  | | --- | --- | | D. | Staggered and orderly offerings. |  |  |  | | --- | --- | | E. | Dutch auctions and orderly offerings. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #220 Type: Concepts* |

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| 221. | Regulatory dialectic refers to:      |  |  | | --- | --- | | A. | The pressures governments exert on financial institutions and regulatory bodies. |  |  |  | | --- | --- | | **B.** | The pressures financial institutions and regulatory bodies exert on each other. |  |  |  | | --- | --- | | C. | The pressures corporations exert on financial institutions and regulatory bodies. |  |  |  | | --- | --- | | D. | The pressures of foreign ownership on regulatory bodies. |  |  |  | | --- | --- | | E. | The pressures investors exert on the markets. | |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #221 Type: Concepts* |

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| 222. | List and briefly describe the three basic questions addressed by a financial manager.     The three areas are:  1. Capital budgeting: The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire. 2. Capital structure: This refers to the specific mixture of long-term debt and equity a firm uses to finance its operations. 3. Working capital management: This refers to a firm's short-term assets and short-term liabilities. Managing the firm's working capital is a day-to-day activity that ensures the firm has sufficient resources to continue its operations and avoid costly interruptions. |

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| *Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #222 Type: Essay* |

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| 223. | Why is the corporate form of business organization considered to be more important than sole proprietorships or partnerships?     The importance of the corporate form of organization lies in its advantages: ease of transferring ownership, the owners' limited liability for business debts, and unlimited life of the business. |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #223 Type: Essay* |

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| 224. | If the corporate form of business organization has so many advantages over the corporate form, why is it so common for small businesses to initially be formed as sole proprietorships?     A significant advantage of the sole proprietorship is that it is cheap and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Finally, for a typical small business, the heart and soul of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years. |

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| *Difficulty: Basic Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #224 Type: Essay* |

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| 225. | What should be the goal of the financial manager of a corporation? Why?     The correct goal is to maximize the current value of the outstanding stock. This focuses correctly on enhancing the returns to shareholders, the owners of the firm. Other goals, such as maximizing earnings, focus too narrowly on accounting income and ignore the importance of market values in managerial finance. |

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| *Difficulty: Basic Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #225 Type: Essay* |

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| 226. | Do you think agency problems arise in sole proprietorships and/or partnerships?     Agency conflicts typically arise when there is a separation of ownership and management of a business. In a sole proprietorship and a small partnership, such separation is not likely to exist to the degree it does in a corporation. However, there is still potential for agency conflicts. For example, as employees are hired to represent the firm, there is once again a separation of ownership and management. |

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| *Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Ross - Chapter 01 #226 Type: Essay* |

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| 227. | Assume for a moment that the stockholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for common stock?     With unlimited liability, you would be very careful which stocks you invest in. In particular, you would not invest in companies you expected to be unable to satisfy their financial obligations. Both the primary and secondary markets for common stock would be severely hampered if this rule existed. It would be very difficult for a young, untested business to get enough capital to grow. |

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| *Difficulty: Challenge Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #227 Type: Essay* |

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| 228. | Suppose you own 100 shares of IBM stock which you intend to sell today. Since you will sell it in the secondary market, IBM will receive no direct cash flows as a consequence of your sale. Why, then, should IBM's management care about the price you get for your shares?     The current market price of IBM stock reflects, among other things, market opinion about the quality of firm management. If the shareholder's sale price is low, this indirectly reflects on the reputation of the managers, as well as potentially impacting their standing in the employment market. Alternatively, if the sale price is high, this indicates that the market believes current management is increasing firm value, and therefore doing a good job. |

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| *Difficulty: Challenge Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #228 Type: Essay* |

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| 229. | One thing lenders sometimes require when lending money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here?     In the event of a loan default, a lender may wish to liquidate the business. Often it is time consuming and difficult to take title of all of the business assets individually. By taking control of the stock, the lender is able to sell the business simply by reselling the stock in the business. This illustrates once again the ease of transfer of ownership of a corporation. |

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| *Difficulty: Challenge Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #229 Type: Essay* |

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| 230. | Why might a corporation wish to list its shares on a national exchange such as the TSX as opposed to a regional exchange? How about being traded OTC?     Being listed on a regional exchange effectively limits the capital access for the business. Plus, there is a prestige factor in being listed on one of the national exchanges. There is still a prestige factor in moving from OTC to the TSX since the TSX has more restrictive membership requirements. |

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| *Difficulty: Intermediate Learning Objective: 01-05 The roles of financial institutions and markets. Ross - Chapter 01 #230 Type: Essay* |

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| 231. | Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues.     Financial managers must first determine which debt-equity mix is best for the firm. Secondly, financial managers must determine the least expensive sources of financing. These decisions will affect both the risk level and the value of the firm. These decisions are significant as they establish the long-term debt obligations of the firm. Should a firm assume too much debt, it could face bankruptcy if the future cash flows cannot support the debt load. |

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| *Difficulty: Challenge Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #231 Type: Essay* |

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| 232. | Explain the cash flow pattern between a firm and the financial markets.     A firm issues securities in the financial markets and receives cash in exchange. This cash is used to purchase assets that in turn generate cash flows. These cash flows are used to reinvest in additional firm assets, pay taxes, pay dividends, cover debt payments, and pay interest to the holders of the firm's securities. |

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| *Difficulty: Intermediate Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Ross - Chapter 01 #232 Type: Essay* |

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| 233. | Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal.     The goal of financial management is to increase the value of the existing owners' equity. Stock options are designed to reward managers when the value of the stock rises. |

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| *Difficulty: Intermediate Learning Objective: 01-03 The goal of financial management. Ross - Chapter 01 #233 Type: Essay* |

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| 234. | Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type.     The organizations include a corporation and a limited partnership. Firms which require large sums of external financing will commonly choose the corporate form. Real estate ventures often involve limited partnerships. |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #234 Type: Essay* |

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| 235. | Explain how ethics can affect the value of a public corporation.     Student answers will vary but should explain that proper ethical behavior enhances the market perception of a firm, increases customer satisfaction, lowers agency costs, and in general, increases the market value of the firm, which is the goal of financial management. |

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| *Difficulty: Intermediate Learning Objective: 01-02 The financial implications of the different forms of business organization. Ross - Chapter 01 #235 Type: Essay* |

Chapter 01: Introduction to Corporate Finance Summary

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| *Category* | *# of Questions* |
| Chapter - Chapter 01 | 1 |
| Difficulty: Basic | 142 |
| Difficulty: Challenge | 10 |
| Difficulty: Intermediate | 83 |
| Gradable: automatic | 19 |
| Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. | 62 |
| Learning Objective: 01-02 The financial implications of the different forms of business organization. | 72 |
| Learning Objective: 01-03 The goal of financial management. | 21 |
| Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. | 30 |
| Learning Objective: 01-05 The roles of financial institutions and markets. | 50 |
| Ross - Chapter 01 | 235 |
| Type: Concepts | 157 |
| Type: Definitions | 64 |
| Type: Essay | 14 |