

Exam

Name _____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Finance is concerned with the process, institutions, markets and instruments involved in the transfer of money among and between individuals, businesses and governments. 1) _____
Answer: True False
- 2) Financial managers actively manage the financial affairs of many types of business - financial and non-financial, private and public, profit and not-for-profit, large and small. 2) _____
Answer: True False
- 3) In a partnership, owners have limited liability and do not have to cover debts of other less financially sound partners. 3) _____
Answer: True False
- 4) The sole proprietor has unlimited liability; only their total investment in the business can be taken to satisfy creditors. 4) _____
Answer: True False
- 5) In a partnership, a partner can readily transfer their wealth to other partners. 5) _____
Answer: True False
- 6) The board of directors is responsible for managing the firm's day-to-day operations and carrying out the policies established by the chief executive officer. 6) _____
Answer: True False
- 7) The financial analyst is responsible for maintaining and controlling the firm's inventories. 7) _____
Answer: True False
- 8) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees' pension fund. 8) _____
Answer: True False
- 9) The principles of managerial finance can be applied equally to private, public and not-for-profit organisations. 9) _____
Answer: True False
- 10) The controller typically handles the accounting activities, such as tax management, data processing as well as cost and financial accounting. 10) _____
Answer: True False
- 11) Typically the treasurer and the controller report directly to the chief financial officer. 11) _____
Answer: True False
- 12) The terms controller and comptroller can be used interchangeably. 12) _____
Answer: True False

- 13) The financial manager places primary emphasis on cash flows, that is, the inflow and outflow of cash. 13) _____
Answer: True False
- 14) The accrual method recognises revenue at the point of sale and expenses when incurred. 14) _____
Answer: True False
- 15) A firms cash flows are measured in terms of earnings per share. 15) _____
Answer: True False
- 16) The profit maximisation goal ignores the timing of returns, does not directly consider cash flows and ignores risk. 16) _____
Answer: True False
- 17) In finance terms, risk represents the likelihood that actual investment outcomes will be different than those expected. 17) _____
Answer: True False
- 18) Higher cash flows are generally associated with a higher share price, whereas higher risk tends to result in a lower share price. 18) _____
Answer: True False
- 19) Return and risk are the key determinants of share price, which represents the wealth of the owners of the firm. 19) _____
Answer: True False
- 20) When considering each financial decision alternative or possible action in terms of its impact on the firm's share price, financial managers should accept only those actions that are expected to increase the firm's profitability. 20) _____
Answer: True False
- 21) The outcome of share price maximisation is consistent with owner wealth maximisation. 21) _____
Answer: True False
- 22) The term 'corporate governance' refers to the situation where the government has a portfolio Minister whose responsibility is to direct the affairs of business companies. 22) _____
Answer: True False
- 23) Both individual and institutional investors have a significant influence on the corporate governance of a firm. 23) _____
Answer: True False
- 24) The goal of ethics is to motivate both business and market participants to adhere to both the letter and the spirit of laws and regulations in all aspects of business and professional practice. 24) _____
Answer: True False

- 25) Ethical conduct is positively related to good governance and inversely related to the firm's goal of wealth maximisation. 25) _____
Answer: True False
- 26) The likelihood that managers may commit fraud with the firm's funds is called the agency problem. 26) _____
Answer: True False
- 27) Performance-based compensation is often assessed using earnings per share measures. 27) _____
Answer: True False
- 28) Market forces and agency costs help to prevent or minimise agency problems. 28) _____
Answer: True False
- 29) A financial institution is a forum in which suppliers and demanders of funds can transact directly. 29) _____
Answer: True False
- 30) Private placements arise in the secondary market. 30) _____
Answer: True False
- 31) The Eurocurrency market is bounded by Europe. 31) _____
Answer: True False
- 32) The over-the-counter exchange of securities is a tangible venue with a trading floor for buying and selling. 32) _____
Answer: True False
- 33) The current company tax rate in Australia is 30%. 33) _____
Answer: True False
- 34) Tax-deductible expenses result in after-tax costs calculated as the amount of the expense multiplied by one plus the tax rate. 34) _____
Answer: True False
- 35) Capital losses not used in a financial year can be carried forward to a future year. 35) _____
Answer: True False
- 36) Application of the dividend imputation system may result in the shareholder receiving a tax refund upon submission of their income tax return. 36) _____
Answer: True False
- 37) Dividend imputation provides an exemption from GST tax. 37) _____
Answer: True False
- 38) Ultimately, GST is borne by consumers. 38) _____
Answer: True False

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

- 39) The part of finance concerned with the design and delivery of advice and financial products to individuals, business and government is called: 39) _____
- A) managerial finance. B) financial manager.
C) financial services. D) none of the above

Answer: C

- 40) Managerial finance: 40) _____
- A) recognises funds on an accrual basis.
B) involves the design and delivery of advice and financial products.
C) devotes the majority of its attention to the collection and presentation of financial data.
D) involves tasks such as budgeting, financial forecasting, cash management and funds procurement.

Answer: D

- 41) The true owner/s of the corporation is/are the: 41) _____
- A) creditors. B) shareholders.
C) board of directors. D) chief executive officer.

Answer: B

- 42) The _____ has/have the ultimate responsibility in guiding corporate affairs and making policies. 42) _____
- A) shareholders B) creditors
C) chief executive officer D) board of directors

Answer: D

- 43) In a corporation, the members of the board of directors are elected by the: 43) _____
- A) employees. B) creditors.
C) chief executive officer. D) shareholders.

Answer: D

- 44) As a percentage of all businesses, sole proprietorships represent approximately: 44) _____
- A) 75%. B) 25%. C) 95%. D) 45%.

Answer: C

- 45) Which of the following legal forms of organisation is the most expensive to organise? 45) _____
- A) Limited partnerships B) Partnerships
C) Corporations D) Sole proprietorships

Answer: C

- 46) Under which of the following legal forms of organisation is ownership readily transferable? 46) _____
- A) Partnerships B) Limited partnerships
C) Corporations D) Sole proprietorships

Answer: C

- 47) A major weakness of a partnership is: 47) _____
 A) difficulty liquidating or transferring ownership.
 B) access to finance.
 C) limited liability.
 D) low organisational costs.
 Answer: A
- 48) Examples of organisational functions in a typical corporation include which of the following? 48) _____
 A) credit manager B) tax manager
 C) portfolio manager D) all of the above
 Answer: D
- 49) The cash manager may be responsible for any of the following EXCEPT: 49) _____
 A) maintaining the firm's daily cash balances.
 B) analysing performance reports.
 C) coordinating the firm's banking relationships.
 D) managing the cash collection.
 Answer: B
- 50) An example of the activity of the foreign exchange manager is: 50) _____
 A) deciding which individual long-term sources are best at a given point in time.
 B) deciding which individual short-term sources are best at a given point in time.
 C) managing the firm's exposure to fluctuations in exchange rates.
 D) managing the appropriate mix of short-term and long-term financing.
 Answer: C
- 51) The _____ is responsible for the evaluation and recommendation of proposed asset investments. 51) _____
 A) pension fund manager B) financial analyst
 C) capital budgeting analyst D) credit analyst
 Answer: C
- 52) The credit analyst's primary function is: 52) _____
 A) evaluating the financial statements. B) administering the firm's credit policy.
 C) planning cash flows. D) making decisions based on financial data.
 Answer: B
- 53) The officer responsible for the firm's financial activities such as financial planning and fund-raising, making capital expenditure decisions, and managing cash, credit, the pension fund and the investment portfolio is the: 53) _____
 A) pension fund manager. B) treasurer.
 C) controller. D) accountant.
 Answer: B
- 54) The controller's role includes which of the following? 54) _____
 A) managing cash B) fund raising
 C) financial planning D) tax management
 Answer: D

- 55) The officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting and cost accounting is the: 55) _____
A) cash manager. B) accountant. C) controller. D) treasurer.
Answer: C
- 56) Marginal analysis states that financial decisions should be made and actions taken only when: 56) _____
A) demand equals supply. B) benefits equal costs.
C) added benefits are greater than zero. D) added benefits exceed added costs.
Answer: D
- 57) The business accountant recognises revenues and expenses on: 57) _____
A) an expense basis. B) a revenue basis.
C) a cash basis. D) an accrual basis.
Answer: D
- 58) The financial manager recognises revenues and expenses utilising: 58) _____
A) the accrual method.
B) the actual inflows and outflows of cash.
C) the revenue method.
D) the standardised, generally accepted, accounting principles.
Answer: B
- 59) A firm has just ended its calendar year making a sale in the amount of \$400 000 of merchandise purchased during the year at a total cost of \$350 000. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The possible problem this firm may face is: 59) _____
A) high leverage. B) lack of cash flow.
C) low profitability. D) inability to receive credit.
Answer: B
- 60) Financial analysis and planning involves all of the following EXCEPT: 60) _____
A) determining the additional financing needs.
B) controlling the collection of financial data.
C) evaluating the need for increased or reduced productive capacity.
D) transforming data into a form that can be used to monitor the firm's financial position.
Answer: B
- 61) In planning and managing the requirements of the firm, the financial manager is concerned with: 61) _____
A) the acquisition of fixed assets, allowing someone else to plan the level of current assets required.
B) the mix and type of assets, the type of financing utilised, and analysis in order to monitor the financial condition.
C) the mix and type of assets, but not the type of financing utilised.
D) the type of financing utilised, but not the mix and type of assets.
Answer: B

- 62) Maximising owner-wealth is the primary goal of the: 62) _____
 A) financial manager. B) companies regulator.
 C) human resources manager. D) advertising agent.

Answer: A

- 63) The amount earned during the accounting period on each outstanding ordinary share is called: 63) _____
 A) net profit after taxes. B) earnings per share.
 C) ordinary share dividend. D) net income.

Answer: B

- 64) A financial manager must choose between four alternative investment assets: 1, 2, 3 and 4. Each of the following assets costs \$35 000 and is expected to provide annual earnings over a three-year period as described below: 64) _____

Asset	Year 1	Year 2	Year 3
1	\$21 000	\$15 000	\$ 6 000
2	9 000	15 000	21 000
3	3 000	20 000	19 000
4	6 000	12 000	12 000

Based on the profit maximisation goal, the financial manager would choose which asset?

- A) Asset 4
- B) Asset 1
- C) Asset 3
- D) Asset 2

Answer: D

- 65) The key variables in the owner wealth maximisation process are: 65) _____
 A) earnings per share and risk. B) earnings per share and share price.
 C) profits and risk. D) cash flows and risk.

Answer: D

- 66) Return and risk are the key determinants in share price. Decreased return results in _____, other things remaining the same. 66) _____
 A) an undetermined share price B) an unchanged share price
 C) a higher share price D) a lower share price

Answer: D

- 67) Financial managers evaluating decision alternatives or potential actions must consider: 67) _____
 A) both risk and return. B) risk, return and the impact on share price.
 C) only return. D) only risk.

Answer: B

- 68) The wealth of the owners of a corporation is represented by: 68) _____
 A) cash flow. B) profits.
 C) share price. D) earnings per share.

Answer: C

69) In general, investors are seen to be: 69) _____
A) risk-positive.
B) risk-seekers.
C) risk-neutral.
D) risk-averse.
E) none of the above

Answer: D

70) The stakeholders of a firm would include all EXCEPT: 70) _____
A) employees.
B) shareholders.
C) suppliers.
D) all of the above
E) none of the above

Answer: E

71) The term 'satisficing' in the context of this chapter: 71) _____
A) where adopted, is likely to provide wealth maximising outcomes.
B) is related to the agency issue.
C) both A and B
D) none of the above

Answer: B

72) The conflict between the goals of a firm's owners and the goals of its managers is: 72) _____
A) of little importance in most large firms. B) serious only when profits decline.
C) the agency problem. D) incompatibility.

Answer: C

73) The agency problem may result from a manager's concerns about any of the following EXCEPT: 73) _____
A) company-provided perquisites. B) job security.
C) corporate goals. D) personal wealth.

Answer: C

74) Agency costs include all of the following EXCEPT: 74) _____
A) performance incentives paid to managers.
B) the cost of monitoring management behaviour.
C) purchasing insurance against management misconduct.
D) management reports to shareholders.

Answer: D

75) Net suppliers of funds to financial institutions include: 75) _____
A) households.
B) individuals.
C) businesses.
D) both A and B.
E) all of the above

Answer: D

76) Australian government regulators of financial institutions include the: 76) _____
A) Australian Stock Exchange.
B) Australian Securities and Investments Commission.
C) Reserve Bank of Australia.
D) both A and B
E) both B and C

Answer: E

77) The sale of a new securities issue directly to an investor or group of investors is known as a: 77) _____
A) public offering. B) secondary market trading.
C) share listing. D) private placement.

Answer: D

78) The function of the money market is to: 78) _____
A) set monetary policy.
B) hold accountable managers who are seen as not performing adequately.
C) trade shares.
D) bring together demanders and suppliers of short term funds.

Answer: D

79) The following are discount securities EXCEPT: 79) _____
A) promissory notes.
B) shares.
C) commercial bills.
D) both A and B
E) both A and C

Answer: E

80) The Eurocurrency market: 80) _____
A) requires currencies to be denominated in euros.
B) is a market for both short and long-term bank deposits.
C) allows for inter-bank deposits.
D) both B and C

Answer: C

81) Which of the following statements about trading on the stock exchange is FALSE? 81) _____
A) Once placed, orders can be processed in minutes.
B) To make transactions on the floor of the ASX, a player must have access through a brokerage firm.
C) The goal of trading is to buy low and sell high for maximum profit.
D) Only individuals can legally buy and sell shares; firms are prohibited.

Answer: D

82) The Australian settlement and transfer system used by securities brokers in Australia is called: 82) _____
A) APRA. B) SEATS.
C) CHESS. D) none of the above

Answer: C

- 83) The Australian capital gains tax was introduced: 83) _____
A) to remove the double taxation of dividends.
B) in 1985.
C) before the dividend imputation system.
D) both A and B
E) both B and C

Answer: E

- 84) Which of the following statements regarding tax-deductible expenses is/are CORRECT? 84) _____
A) After-tax costs are reduced where they are tax-deductible for profitable firms.
B) Only debt financing costs are tax deductible.
C) both A and B
D) none of the above

Answer: C

- 85) The purpose of the dividend imputation system in Australia is to: 85) _____
A) increase the tax rate on company profits.
B) reconcile the economic and accounting views of the firm.
C) make dividend income subject to one levy of tax.
D) solve the agency problem.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 86) Compare the advantages/disadvantages of the three basic legal forms of business organisation.

Answer: The three basic legal forms of business organisation are the sole proprietorship, the partnership and the corporation. The relative strengths and weaknesses of each of these is summarised in Table 1.1 on pages 5-6.

- 87) Discuss two basic differences between finance and accounting.

Answer: Two differences are in relation to the emphasis on cash flows and decision making. Accountants use the accrual basis which recognises revenues at the point of sale and expenses when incurred. The financial manager places primary emphasis on cash flows, recognising revenues and expenses only with respect to actual inflows and outflows of cash. The accountant devotes the majority of his or her attention to the collection and presentation of financial data, whereas the financial manager evaluates the accountant's statements, develops additional data and makes decisions based on subsequent analyses.

- 88) In order to maximise shareholder wealth, what preferences does the financial manager have in relation to the timing of cash flows and the risks attached to the generation of returns to shareholders?

Answer: All other issues being equal, the financial manager should exhibit a preference for earlier cash inflows and/or later cash outflows as well as taking lower risks rather than higher risks unless the higher risks were adequately compensated with higher returns.

- 89) Why does profit maximisation fail as a goal for the financial manager?

Answer: Profit maximisation fails for a number of reasons. It ignores the timing of returns, cash flows available to shareholders, and risk.

- 90) Identify and discuss the four types of agency costs.

Answer: The four types of agency costs are monitoring expenditures, bonding expenditures, opportunity costs and structuring expenditures. Each of these is discussed fully on page 19 of the text.

91) Discuss the role of the 'primary' and 'secondary' segments of the financial markets

Answer: The 'primary market' is where securities are initially issued, and is the only market where the issuer is directly involved in the transaction. The 'secondary' market is where pre-owned securities can be traded.

92) The finance manager of Glycerine Holdings Ltd. received the following financial information from the accounting department of the firm:

Year	Operating Earnings/ (Losses) Before Tax	Capital Gains	Capital Losses
2008	\$300 000	\$ 50 000	\$175 000
2009	\$(80 000)	\$280 000	\$210 000
2010	\$235 000	\$125 000	\$ 5 000

Determine the amount of any taxable income and any net capital losses, including any carried forward amounts, each year.

Answer: 2008: Taxable income = \$300 000; Net capital losses = \$125 000 (\$175 000 - \$50 000)

2009: Taxable income = \$(80 000); Net capital losses = \$55 000 (\$125 000 + \$210 000 - \$280 000)

2010: Taxable income = \$220 000(\$235 000 - \$80 000 - \$55 000 + \$125 000 - \$5 000); Net capital losses = \$

93) What is capital gains tax?

Answer: Assessable income for tax purposes is seen to include net capital gains, the difference between the buy and sell prices of an asset in a given year.