

True/False

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

Ans: False Level: Basic Subject: Cash Flows Type: Concepts

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

Ans: True Level: Basic Subject: Financial Management Type: Concepts

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

Ans: False Level: Intermediate Subject: Financial Management Type: Concepts

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

Ans: False Level: Intermediate Subject: Financial Management Type: Concepts

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

Ans: False Level: Intermediate Subject: Financial Management Type: Concepts

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

Ans: False Level: Intermediate Subject: Agency Theory Type: Concepts

7. IBME, Inc. spends approximately \$3 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.

Ans: False Level: Intermediate Subject: Agency Costs Type: Concepts

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".

Ans: False Level: Basic Subject: Financial Management Type: Concepts

Multiple Choice

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.

Ans: C Level: Basic Subject: Corporate Controller Type: Definitions

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.

Ans: A Level: Basic Subject: Corporate Treasurer Type: Definitions

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.

Ans: D Level: Basic Subject: Capital Budgeting Type: Definitions

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.

Ans: E Level: Basic Subject: Capital Structure Type: Definitions

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.

Ans: A Level: Basic Subject: Working Capital Type: Definitions

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.

Ans: B Level: Basic Subject: Sole Proprietorship Type: Definitions

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.

Ans: C Level: Basic Subject: Partnership Type: Definitions

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.

Ans: D Level: Basic Subject: Partnership Agreement Type: Definitions

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.

Ans: A Level: Basic Subject: Corporation Type: Definitions

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.

Ans: E Level: Basic Subject: Articles Of Incorporation Type: Definitions

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.

Ans: D Level: Basic Subject: Bylaws Type: Definitions

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.

Ans: B Level: Basic Subject: Financial Management Goal Type: Definitions

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.

Ans: C Level: Basic Subject: Agency Problem Type: Definitions

22. Agency costs

- 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.

Ans: D Level: Basic Subject: Agency Costs Type: Definitions

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.

Ans: E Level: Basic Subject: Stakeholders Type: Definitions

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.

Ans: A Level: Basic Subject: Primary Market Type: Definitions

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.

Ans: B Level: Basic Subject: Secondary Market Type: Definitions

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.

Ans: C Level: Basic Subject: Dealer Market Type: Definitions

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.

Ans: D Level: Basic Subject: Auction Market Type: Definitions

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

Ans: E Level: Basic Subject: Markets Type: Definitions

29. The Corporate Treasurer is in charge of:

- A) Cost accounting.
- B) Credit management.
- C) Data processing.
- D) Tax management.
- E) Financial accounting.

Ans: B Level: Basic Subject: Treasurer Type: Definitions

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.

Ans: D Level: Basic Subject: Chief Financial Officer Type: Definitions

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.

Ans: A Level: Basic Subject: Capital Budgeting Type: Definitions

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.

Ans: C Level: Basic Subject: Capital Structure Type: Definitions

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.

Ans: E Level: Basic Subject: Working Capital Management Type: Definitions

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.

Ans: E Level: Basic Subject: Corporation Type: Definitions

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.

Ans: C Level: Basic Subject: Goal of Financial Management Type: Definitions

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.

Ans: A Level: Basic Subject: Proxy Fight Type: Definitions

37. Suppliers, customers, and employees of a corporation are called:

- A) Shareholders.
- B) Stakeholders.
- C) Debtors.
- D) Stockholders.
- E) Partners.

Ans: B Level: Basic Subject: Stakeholder Type: Definitions

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.

Ans: C Level: Basic Subject: Proprietorship Type: Definitions

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.

Ans: B Level: Basic Subject: Agency Problem Type: Definitions

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.

Ans: D Level: Basic Subject: Primary Market Type: Definitions

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.

Ans: E Level: Basic Subject: Listing Type: Definitions

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.

Ans: A Level: Basic Subject: Dealer Market Type: Definitions

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

Ans: C Level: Basic Subject: Financial Management Type: Concepts

44. Which 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

Ans: D Level: Intermediate Subject: Financial Manager Type: Concepts

45. 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

Ans: D Level: Intermediate Subject: Financial Management Type: Concepts

46. According to the balance sheet 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

Ans: C Level: Intermediate Subject: Financial Management Type: Concepts

47. 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.

Ans: B Level: Intermediate Subject: Corporate Finance Type: Concepts

48. 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

Ans: E Level: Intermediate Subject: Capital Budgeting Type: Concepts

49. 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

Ans: B Level: Intermediate Subject: Financial Management Type: Concepts

50. 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

Ans: A Level: Basic Subject: Capital Structure Type: Concepts

51. 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

Ans: C Level: Basic Subject: Financial Management Type: Concepts

52. In a _____, the owners are not offered the protection of limited liability.
- A) sole proprietorship
 - B) limited liability company
 - C) corporation
 - D) limited partnership
 - E) S corporation

Ans: A Level: Basic Subject: Business Organizations Type: Concepts

53. 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

Ans: A Level: Intermediate Subject: Business Organizations Type: Concepts

54. 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.

Ans: C Level: Intermediate Subject: Business Organizations Type: Concepts

55. 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.

Ans: B Level: Basic Subject: Business Organizations Type: Concepts

56. 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

Ans: A Level: Basic Subject: Business Organizations Type: Concepts

57. Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a(n) _____.
- A) sole proprietorship
 - B) partnership
 - C) corporation
 - D) general partnership
 - E) limited liability company

Ans: A Level: Basic Subject: Business Organizations Type: Concepts

58. 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

Ans: B Level: Intermediate Subject: Business Organizations Type: Concepts

59. 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

Ans: C Level: Basic Subject: Business Organizations Type: Concepts

60. 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

Ans: A Level: Basic Subject: Business Organizations Type: Concepts

61. 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

Ans: B Level: Intermediate Subject: Business Organizations Type: Concepts

62. 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.

Ans: B Level: Basic Subject: Double Taxation Type: Concepts

63. 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.

Ans: E Level: Basic Subject: Financial Management Goal Type: Concepts

64. 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.

Ans: B Level: Basic Subject: Financial Management Type: Concepts

65. 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

Ans: D Level: Intermediate Subject: Financial Management Type: Concepts

66. 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.

Ans: A Level: Intermediate Subject: Agency Costs Type: Concepts

67. 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.

Ans: D Level: Basic Subject: Agency Theory Type: Concepts

68. The Board of Directors of Beeline, Inc. have 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.

Ans: D Level: Challenge Subject: Agency Costs Type: Concepts

69. 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

Ans: E Level: Challenge Subject: Agency Costs Type: Concepts

70. 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.

Ans: D Level: Intermediate Subject: Agency Costs Type: Concepts

71. 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

Ans: E Level: Challenge Subject: Agency Theory Type: Concepts

72. 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

Ans: B Level: Challenge Subject: Financial Management Type: Concepts

73. 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

Ans: B Level: Basic Subject: Stock Exchanges Type: Concepts

74. 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

Ans: A Level: Basic Subject: Markets Type: Concepts

75. 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

Ans: B Level: Intermediate Subject: Markets Type: Concepts

76. Which of the following is NOT a general criteria 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.

Ans: D Level: Intermediate Subject: Stock Exchanges Type: Concepts

77. 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

Ans: A Level: Basic Subject: Markets Type: Concepts

78. 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

Ans: A Level: Basic Subject: Markets Type: Concepts

79. 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

Ans: E Level: Intermediate Subject: Market Transactions Type: Concepts

80. 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, and C
 - E) None of the above

Ans: D Level: Basic Subject: Markets Type: Concepts

81. 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

Ans: B Level: Intermediate Subject: Markets Type: Concepts

82. 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

Ans: A Level: Basic Subject: Primary Markets Type: Concepts

83. 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

Ans: D Level: Intermediate Subject: Financial Institutions Type: Concepts

84. All of the following are examples of Canadian financial institutions EXCEPT
- A) Trust companies
 - B) Provincial governments
 - C) Mutual funds
 - D) Investment dealers
 - E) Chartered banks

Ans: B Level: Basic Subject: Financial Institutions Type: Concepts

85. 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.

Ans: A Level: Basic Subject: Capital Budgeting Type: Concepts

86. 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

Ans: A Level: Intermediate Subject: Capital Structure Type: Concepts

87. Working capital management is concerned with which balance sheet 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

Ans: D Level: Basic Subject: Working Capital Management Type: Concepts

88. 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.

Ans: C Level: Intermediate Subject: Sole Proprietorship Type: Concepts

89. 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.

Ans: E Level: Intermediate Subject: Partnership Type: Concepts

90. 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.

Ans: A Level: Basic Subject: Corporation Type: Concepts

91. 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.

Ans: D Level: Basic Subject: Stockholders Type: Concepts

92. 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.

Ans: A Level: Intermediate Subject: Primary Market Type: Concepts

93. 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.

Ans: E Level: Intermediate Subject: Stock Exchanges Type: Concepts

94. 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

Ans: E Level: Intermediate Subject: Dealer Market Type: Concepts

95. 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

Ans: D Level: Intermediate Subject: Auction Market Type: Concepts

96. 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.

Ans: A Level: Intermediate Subject: Listing Type: Concepts

97. 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

Ans: C Level: Intermediate Subject: Corporations Type: Concepts

98. 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

Ans: A Level: Intermediate Subject: Capital Structure Type: Concepts

99. Deciding which bank to borrow money from is a _____ decision.

- A) Working capital
- B) Capital structure
- C) Capital budgeting
- D) Cost accounting
- E) Credit management

Ans: B Level: Basic Subject: Capital Structure Type: Concepts

100. 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

Ans: D Level: Intermediate Subject: Working Capital Type: Concepts

101. 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.

Ans: B Level: Intermediate Subject: Organizational Type: Concepts

102. 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

Ans: E Level: Intermediate Subject: Capital Budgeting Type: Concepts

103. 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.

Ans: B Level: Basic Subject: Working Capital Management Type: Concepts

104. 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.

Ans: B Level: Intermediate Subject: Proprietorship Type: Concepts

105. 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.

Ans: C Level: Intermediate Subject: Partnership Type: Concepts

106. 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.

Ans: A Level: Intermediate Subject: Partnership Type: Concepts

107. 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

Ans: B Level: Intermediate Subject: Partnership Type: Concepts

108. 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

Ans: C Level: Intermediate Subject: Corporation Type: Concepts

109. 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

Ans: D Level: Intermediate Subject: Goal of Financial Management Type: Concepts

110. 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

Ans: A Level: Challenge Subject: Agency Problem Type: Concepts

111. 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

Ans: C Level: Intermediate Subject: Agency Problem Type: Concepts

112. 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.

Ans: E Level: Intermediate Subject: Auction Market Type: Concepts

113. 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.

Ans: E Level: Basic Subject: Capital Budgeting Type: Concepts

114. 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.

Ans: C Level: Intermediate Subject: Secondary Market Type: Concepts

115. Stockholders elect:

- A) The Chief Executive Officer.
- B) The Corporate Directors.
- C) The Chairman of the Board.
- D) The President.
- E) All senior managers.

Ans: B Level: Basic Subject: Organizational Chart Type: Concepts

Essay

116. List and briefly describe the three basic questions a financial manager must be concerned with.

Ans: 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.

Level: Basic Subject: Financial Management Type: Essays

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

Ans: 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.

Level: Basic Subject: Business Organizations Type: Essays

118. 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?

Ans: 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 sole 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.

Level: Basic Subject: Business Organizations Type: Essays

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

Ans: 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.

Level: Basic Subject: Financial Management Goal Type: Essays

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

Ans: 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.

Level: Intermediate Subject: Agency Theory Type: Essays

121. 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?

Ans: 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.

Level: Challenge Subject: Limited Liability Type: Essays

122. 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?

Ans: 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.

Level: Challenge Subject: Financial Management Goals Type: Essays

123. One thing lenders sometimes require when loaning 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?

Ans: 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.

Level: Challenge Subject: Transfer Of Ownership In A Corporation Type: Essays

124. 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?

Ans: 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.

Level: Intermediate Subject: Exchange Listings Type: Essays

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

Ans: 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 can not support the debt load.

Level: Challenge Subject: Capital Structure Type: Essays

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

Ans: 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.

Level: Intermediate Subject: Cash Flows Type: Essays