

Exam

Name _____

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

- 1) Profit maximization fails because it ignores all EXCEPT 1) _____
A) cash flows available to stockholders. B) risk.
C) earnings per share. D) the timing of returns.

Answer: C

Explanation: A)
B)
C)
D)

- 2) 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 foreign exchange is 2) _____
A) the foreign exchange manager. B) the treasurer.
C) the controller. D) none of the above.

Answer: B

Explanation: A)
B)
C)
D)

- 3) A company determines its overall cost of capital by 3) _____
A) calculating the percent of earnings paid out in dividends
B) multiplying the percentage of debt in the capital structure by the percentage of equity
C) multiplying the percentage of debt by its cost and adding the result to the percentage of equity multiplied by its cost
D) calculating the average cost of interest rates paid on loans and other debt instruments

Answer: C

Explanation: A)
B)
C)
D)

- 4) Return and risk are the key determinants in share price. Increased risk, other things remaining the same, results in 4) _____
A) a higher share price. B) an undetermined share price.
C) a lower share price. D) an unchanged share price.

Answer: C

Explanation: A)
B)
C)
D)

5) The accountant recognizes revenues and expenses on _____
A) an expense basis. B) an accrual basis.
C) a revenue basis. D) a cash basis.

Answer: B
Explanation: A)
B)
C)
D)

6) Corporate owners receive a realizable return through _____
A) profit and earnings per share.
B) increase in share price and cash dividends.
C) earnings per share and cash dividends.
D) increase in share price and earnings per share.

Answer: B
Explanation: A)
B)
C)
D)

7) Johnson, Inc. has just ended the calendar year making a sale in the amount of \$10,000 of merchandise purchased during the year at a total cost of \$7,000. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are _____
A) \$3,000 and \$7,000 respectively. B) \$3,000 and -\$7,000 respectively.
C) \$7,000 and -\$3,000 respectively. D) \$3,000 and \$10,000 respectively.

Answer: B
Explanation: A)
B)
C)
D)

8) The key activities of the financial manager include all of the following EXCEPT _____
A) managing financial accounting. B) making financing decisions.
C) financial analysis and planning. D) making investment decisions.

Answer: A
Explanation: A)
B)
C)
D)

9) For \$200,000 you can buy a business that has steady cash flows and low risk. Given these cash flows and level of risk, you estimate the business will earn a return in excess of its opportunity cost of money. The business

9) _____

- A) appears to be a losing proposition but should be bought anyway.
- B) appears to be a losing proposition and should not be bought.
- C) appears economically profitable, and strong consideration should be given to buying it.
- D) looks like a break-even opportunity and should be rejected.

Answer: C

Explanation: A)
B)
C)
D)

10) Sig Hansen runs a ski resort in British Columbia. He is considering replacing the ski lifts at the resort. His calculations suggest that if he does, the economic benefits from the upgraded ski-lift operations will total \$959,000 over the next six years. The ski lifts he already has are projected to generate \$444,000 in economic benefits over the next six years. The new ski lifts would require an initial cash investment of \$385,000 and Sig estimates he can sell his existing ski lift equipment for \$170,000. Based on these estimates, what is Sig's marginal benefit from replacing the ski lifts?

10) _____

- A) \$959,000
- B) \$574,000
- C) \$345,000
- D) \$515,000

Answer: D

Explanation: A)
B)
C)
D)

11) The financial manager's investment decisions determine

11) _____

- A) both the mix and the type of assets found on the firm's balance sheet.
- B) both the mix and the type of assets and liabilities found on the firm's balance sheet.
- C) both the mix and the type of short-term and long-term financing.
- D) both the mix and the type of liabilities found on the firm's balance sheet.

Answer: A

Explanation: A)
B)
C)
D)

12) Agency costs include all of the following EXCEPT

12) _____

- A) bonding and structuring expenses.
- B) monitoring expenditures.
- C) opportunity costs.
- D) cost of goods sold.

Answer: D

Explanation: A)
B)
C)
D)

13) Career opportunities in financial services include all of the following EXCEPT 13) _____
A) investments. B) capital expenditures management.
C) real estate and insurance. D) personal financial planning.

Answer: B

Explanation: A)
B)
C)
D)

14) The accountant may be responsible for any of the following EXCEPT 14) _____
A) preparing the monthly income statement.
B) processing purchase orders and invoices.
C) analyzing the mix of current to fixed assets.
D) ensuring accounts payable are paid on time.

Answer: C

Explanation: A)
B)
C)
D)

15) Managing the firm's liabilities includes all of the following EXCEPT 15) _____
A) accounts payable. B) notes payable.
C) accruals. D) cash.

Answer: D

Explanation: A)
B)
C)
D)

16) The true owners of the corporation is/are the 16) _____
A) chief executive officer. B) creditors.
C) stockholders. D) board of directors.

Answer: C

Explanation: A)
B)
C)
D)

17) Economic theories that the financial manager must be able to utilize for efficient business operations, include 17) _____
A) profit-maximizing strategies. B) supply-and-demand analysis.
C) marginal analysis. D) all of the above.

Answer: D

Explanation: A)
B)
C)
D)

- 18) The implementation of a pro-active ethics program is expected to result in _____
- A) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price.
 - B) a positive corporate image and increased respect, but is not expected to affect cash flows.
 - C) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows.
 - D) a positive corporate image and increased respect, but is not expected to affect share price.

Answer: A

Explanation: A)
B)
C)
D)

- 19) When entering into a partnership with a business associate, it is strongly recommended that _____
- A) both partners contribute an equal amount of money.
 - B) both partners contribute an equal amount of money and labor.
 - C) a partnership agreement be drafted outlining roles, responsibilities, and profit sharing.
 - D) both partners contribute an equal amount of labor.

Answer: C

Explanation: A)
B)
C)
D)

- 20) Which of the following is a career opportunity in managerial finance? _____
- A) Personal Financial Planning
 - B) Investment
 - C) Capital Expenditures Management
 - D) Real Estate and Insurance

Answer: C

Explanation: A)
B)
C)
D)

- 21) Under which of the following legal forms of organization, is ownership readily transferable? _____
- A) limited partnerships
 - B) corporations
 - C) sole proprietorships
 - D) partnerships

Answer: B

Explanation: A)
B)
C)
D)

22) Hardwood Furniture Limited sold \$1,225,000 worth of tables, chairs and other furniture last year. During that time period, the company collected \$975,755 for those items and paid \$407,844 for the materials used in producing the furniture they sold. What was Hardwood's net cash flow for last year? 22) _____

- A) \$1,225,000 B) \$567,911 C) \$975,755 D) \$817,156

Answer: B

- Explanation: A)
 B)
 C)
 D)

23) A financial manager must choose between four alternative investments, 1, 2, 3, and 4. Each asset costs \$35,000 and is expected to provide earnings over a three-year period as described below. 23) _____

<u>Asset</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
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 maximization goal, the financial manager would choose

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

Answer: B

- Explanation: A)
 B)
 C)
 D)

24) In a corporation, ethical decisions occur at all levels within the hierarchy. If you were an ethics consultant, which ethical behavior would concern you the most? 24) _____

- A) a food-wholesaler's cashier rounds all weights down when calculating the cost of fruits and vegetables for customers
- B) an investment advisor tells his client that a company near bankruptcy has excellent growth prospects in order to get his sales commission
- C) a strawberry grower sprays a legalized chemical on its berries to help them turn red quicker
- D) a medical research company tests cancer drugs on mice

Answer: B

- Explanation: A)
 B)
 C)
 D)

25) Managerial finance 25) _____
A) devotes the majority of its attention to the collection and presentation of financial data.
B) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.
C) recognizes funds on an accrual basis.
D) involves the design and delivery of advice and financial products.

Answer: B

Explanation: A)
B)
C)
D)

26) In _____, owners have limited liability with regard to the business—they are not personally 26) _____
liable for other owners' malpractice.
A) in a cooperative B) a partnership
C) a limited partnership D) s sole proprietorship

Answer: C

Explanation: A)
B)
C)
D)

27) The dominant form of organization with respect to revenues and net income is the 27) _____
A) sole proprietorship. B) limited partnership.
C) partnership. D) corporation.

Answer: D

Explanation: A)
B)
C)
D)

28) The financial manager may be responsible for any of the following EXCEPT 28) _____
A) determining whether to accept or reject a capital asset acquisition.
B) analyzing quarterly budget and performance reports.
C) keeping track of quarterly tax payments.
D) analyzing the effects of more debt on the firm's capital structure.

Answer: C

Explanation: A)
B)
C)
D)

29) The controller is commonly responsible for 29) _____
A) financial accounting. B) financial planning.
C) managing credit activities. D) managing cash.

Answer: A

Explanation: A)
B)
C)
D)

- 30) Financial analysis and planning involve all of the following EXCEPT 30) _____
A) evaluating the need for increased or reduced productive capacity.
B) determining the additional financing needs.
C) transforming data into a form that can be used to monitor the firm's financial position.
D) controlling the data processing activities.

Answer: D

Explanation: A)
B)
C)
D)

- 31) As the risk of a stock investment increases, 31) _____
A) return will increase. B) required rate of return will increase.
C) return will decrease. D) required rate of return will decrease.

Answer: B

Explanation: A)
B)
C)
D)

- 32) When a firm is under-managed, 32) _____
A) nobody can do nothing since management controls the corporation.
B) the market forces will be unable to identify this, and the firm's share price will remain strong.
C) market forces expose this weakness and allow for corrective action to be taken.
D) generally there is nothing shareholders can do.

Answer: C

Explanation: A)
B)
C)
D)

- 33) A "legal entity" which can sue and be sued, make and be party to contracts, and acquire property in its own name is 33) _____
A) a corporation. B) a professional partnership.
C) a partnership. D) a sole proprietorship.

Answer: A

Explanation: A)
B)
C)
D)

- 34) Which of the following legal forms of organization is most expensive to organize? 34) _____
A) partnerships B) limited partnerships
C) corporations D) sole proprietorships

Answer: C

Explanation: A)
B)
C)
D)

- 35) The financial manager's financing decisions determine 35) _____
 A) both the mix and the type of assets and liabilities found on the firm's balance sheet.
 B) the proportion of the firm's earnings to be paid as dividend.
 C) the most appropriate mix of short-term and long-term financing.
 D) both the mix and the type of assets found on the firm's balance sheet.

Answer: C

- Explanation: A)
 B)
 C)
 D)

- 36) The goal of profit maximization would result in priority for 36) _____
 A) risk of the investment. B) cash flows available to stockholders.
 C) earnings per share. D) timing of the returns.

Answer: C

- Explanation: A)
 B)
 C)
 D)

- 37) The financial manager is interested in the cash inflows and outflows of the firm, rather than the 37) _____
 accounting data, in order to ensure
 A) the ability to acquire new assets. B) solvency.
 C) profitability. D) the ability to pay dividends.

Answer: B

- Explanation: A)
 B)
 C)
 D)

- 38) A financial manager must choose between three alternative investments. Each asset is expected to 38) _____
 provide earnings over a three-year period as described below. Based on the wealth maximization
 goal, the financial manager would

<u>Year</u>	<u>Asset 1</u>	<u>Asset 2</u>	<u>Asset 3</u>
1	\$21,000	\$ 9,000	\$ 8,000
2	15,000	15,000	21,000
3	9,000	18,000	17,000
	-----	-----	-----
	\$46,000	\$41,000	\$46,000

- A) choose Asset 1.
 B) choose Asset 2.
 C) choose Asset 3.
 D) be indifferent between Asset 1 and Asset 2.

Answer: A

- Explanation: A)
 B)
 C)
 D)

- 39) Return and risk 39) _____
A) have the same effect on share price. B) adversely affect share price.
C) have no effect on share price. D) have an inverse effect on share price.

Answer: D

Explanation: A)
B)
C)
D)

- 40) The agency problem may result from a manager's concerns about any of the following EXCEPT 40) _____
A) personal wealth. B) job security.
C) corporate goals. D) company-provided perquisites.

Answer: C

Explanation: A)
B)
C)
D)

- 41) The key variables in the owner wealth maximization process are 41) _____
A) cash flows and risk. B) earnings per share and risk.
C) earnings per share and share price. D) profits and risk.

Answer: A

Explanation: A)
B)
C)
D)

- 42) An ethics program is expected to have _____ impact on the firm's share price. 42) _____
A) negative B) positive C) no D) undetermined

Answer: B

Explanation: A)
B)
C)
D)

- 43) Which of the following would be considered an agency cost? 43) _____
A) cost of wages paid to factory workers
B) cost of interest paid to bondholders
C) cost of dividends paid to shareholders
D) cost of an annual audit required by bondholders

Answer: D

Explanation: A)
B)
C)
D)

- 44) The difference between the cost of funds used to finance an investment and its after-tax operating profits is called 44) _____
A) a dividend. B) economic value added.
C) retained earnings. D) earnings per share.

Answer: B

Explanation: A)
B)
C)
D)

- 45) One way often used to insure that management decisions are in the best interest of the stockholders is to 45) _____
A) tie management compensation to the level of earnings per share.
B) threaten to fire managers who are seen as not performing adequately.
C) tie management compensation to the performance of the company's common stock price.
D) remove management's perquisites.

Answer: C

Explanation: A)
B)
C)
D)

- 46) A recent ethics survey indicated the opinion that maintaining high ethical standards 46) _____
A) had no effect on a firm's competitive position.
B) was difficult to enforce.
C) weakened a firm's competitive position, particularly in foreign markets.
D) strengthened a firm's competitive position.

Answer: D

Explanation: A)
B)
C)
D)

- 47) Wealth maximization as the goal of the firm implies enhancing the wealth of 47) _____
A) the federal government. B) the Board of Directors.
C) the firm's employees. D) the firm's stockholders.

Answer: D

Explanation: A)
B)
C)
D)

48) One key output of the financial forecasting process are: 48) _____
A) the amount of funds the company required to operate over the past fiscal period
B) the past financial statements
C) the forecasted financial statements
D) the current financial statements

Answer: C

Explanation: A)
B)
C)
D)

49) The _____ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies. 49) _____
A) chief executive officer B) creditors
C) stockholders D) board of directors

Answer: D

Explanation: A)
B)
C)
D)

50) Making investment decisions includes all of the following EXCEPT 50) _____
A) machinery. B) notes payable. C) inventory. D) buildings.

Answer: B

Explanation: A)
B)
C)
D)

51) The part of finance concerned with the design and delivery of advice and financial products to individuals, businesses, and government is called 51) _____
A) financial manager. B) managerial finance.
C) financial services. D) none of the above.

Answer: C

Explanation: A)
B)
C)
D)

52) When determining a firm's level of net income, accountants use 52) _____
A) cash flows.
B) static based amounts.
C) the actual dollars coming in and going out.
D) accrual based amounts.

Answer: D

Explanation: A)
B)
C)
D)

- 53) Which of the following risk-return statements is true? 53) _____
- A) rational investors require a lower return for exposing themselves to risk
 - B) an investment in a Government of Canada bond is more risky than an investment in a publicly traded company, such as Nortel Networks
 - C) in order to increase the return expected from any kind of investment, we must increase our exposure to risk
 - D) all of the above are true

Answer: C

Explanation: A)
B)
C)
D)

- 54) A more recent issue that is causing major problems in the business community is 54) _____
- A) ethical problems.
 - B) the privatization of ownership.
 - C) environmental concerns.
 - D) short-term versus long-term financial goals of management.

Answer: A

Explanation: A)
B)
C)
D)

- 55) Making financing decisions includes all of the following EXCEPT 55) _____
- A) determining the appropriate mix of short-term and long-term financing.
 - B) deciding which individual long-term sources are best at a given point in time.
 - C) deciding which individual short-term sources are best at a given point in time.
 - D) analyzing quarterly budget and performance reports.

Answer: D

Explanation: A)
B)
C)
D)

- 56) Profit maximization as the goal of the firm is NOT ideal because 56) _____
- A) profits today are less desirable than profits earned in future years.
 - B) profit maximization does not consider risk.
 - C) cash flows are more representative of financial strength.
 - D) profits are only accounting measures.

Answer: B

Explanation: A)
B)
C)
D)

57) _____ is concerned with the duties of the financial manager in the business firm. 57) _____
A) Managerial Finance B) Financial Services
C) The Financial Manager D) None of the above

Answer: A

Explanation: A)
B)
C)
D)

58) Financial managers evaluating decision alternatives or potential actions must consider 58) _____
A) only risk.
B) both risk and return.
C) only return.
D) risk, return, and the impact on share price.

Answer: D

Explanation: A)
B)
C)
D)

59) By concentrating on cash flows within the firm the financial manager should be able to 59) _____
A) speak authoritatively to stockholders. B) control expenses.
C) prepare tax returns. D) avoid insolvency.

Answer: D

Explanation: A)
B)
C)
D)

60) A firm has just ended its calendar year making a sale in the amount of \$150,000 of merchandise 60) _____
purchased during the year at a total cost of \$112,500. Although the firm paid in full for the
merchandise during the year, it has yet to collect at year end from the customer. The net profit and
cash flow from this sale for the year are
A) \$37,500 and -\$112,500 respectively. B) \$150,000 and \$112,500 respectively.
C) \$37,500 and -\$150,000 respectively. D) \$0 and \$150,000 respectively.

Answer: A

Explanation: A)
B)
C)
D)

61) Generally, the Treasurer of a large corporation reports to the 61) _____
A) General Manager. B) Chief Executive Officer.
C) Chief Financial Officer. D) Credit Manager.

Answer: C

Explanation: A)
B)
C)
D)

- 62) Which of the following is an investing decision? 62) _____
- A) the decision of how many employees to utilize over the slowdown season
 - B) the decision on how much cash to keep on hand for precautionary purposes
 - C) the decision on how to price a new issue of preferred stock
 - D) the decision on which technology to adopt for the firm's production needs

Answer: D

- Explanation: A)
B)
C)
D)

- 63) As a sole proprietor, you are responsible for 63) _____
- A) the day-to-day management of the business including customer service.
 - B) maintaining financial records and reporting to the government.
 - C) marketing the business to the target market.
 - D) all of the above.

Answer: D

- Explanation: A)
B)
C)
D)

- 64) A firm has just ended its calendar year making a sale in the amount of \$200,000 of merchandise purchased during the year at a total cost of \$150,500. 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 64) _____
- A) high leverage.
 - B) lack of cash flow.
 - C) inability to receive credit.
 - D) low profitability.

Answer: B

- Explanation: A)
B)
C)
D)

- 65) Hardwood Furniture Limited sold \$1,225,000 worth of tables, chairs and other furniture last year. During that time period, the company collected \$975,755 for those items and paid \$407,844 for the materials used in producing the furniture they sold. What was Hardwood's net profit for last year? 65) _____
- A) \$1,225,000
 - B) \$567,911
 - C) \$975,755
 - D) \$817,156

Answer: D

- Explanation: A)
B)
C)
D)

66) The role of Board of Directors is to 66) _____
A) ensure that managers' compensation is protected even when the company performs poorly
B) follow the directions of the Chief Executive Officer (CEO) of the company
C) monitor management on behalf of shareholders
D) represent the interests of management to the shareholders

Answer: C

Explanation: A)
B)
C)
D)

67) The financial manager recognizes revenues and expenses utilizing 67) _____
A) standardized, generally accepted, accounting principles.
B) the revenue method.
C) the accrual method.
D) the actual inflows and outflows of cash.

Answer: D

Explanation: A)
B)
C)
D)

68) Corporate ethics policies typically apply to _____ in dealing with _____. 68) _____
A) management actions; all corporate constituents
B) employee actions; customers, vendors, and regulators
C) employee actions; all corporate constituents
D) employee actions; customers and creditors

Answer: C

Explanation: A)
B)
C)
D)

69) Which of the following legal forms of organization is characterized by limited liability? 69) _____
A) partnership
B) corporation
C) sole proprietorship
D) professional partnership

Answer: B

Explanation: A)
B)
C)
D)

70) If a company's managers are NOT owners of the company, they are 70) _____
A) brokers. B) dealers. C) outsiders. D) agents.

Answer: D

Explanation: A)
B)
C)
D)

- 71) The accountant's primary function is 71) _____
A) making decisions based on financial data.
B) the collection and presentation of financial data.
C) planning cash flows.
D) evaluating the financial statements.

Answer: B

Explanation: A)
B)
C)
D)

- 72) Benefits to incorporating a small business with one owner include all of the following EXCEPT 72) _____
A) the small business tax credit on income below \$200,000.
B) the ability to limit liability to the amount invested in the company.
C) the \$500,000 capital gains exemption for qualified small business shares.
D) the ability to raise capital through public offerings.

Answer: D

Explanation: A)
B)
C)
D)

- 73) Sig Hansen runs a ski resort in British Columbia. He is considering replacing the ski lifts at the resort. His calculations suggest that if he does, the economic benefits from the upgraded ski-lift operations will total \$959,000 over the next six years. The ski lifts he already has are projected to generate \$444,000 in economic benefits over the next six years. The new ski lifts would require an initial cash investment of \$385,000 and Sig estimates he can sell his existing ski lift equipment for \$170,000. Based on these estimates, what is Sig's marginal cost from replacing the ski lifts? 73) _____
A) \$574,000 B) \$515,000 C) \$215,000 D) \$385,000

Answer: C

Explanation: A)
B)
C)
D)

- 74) Canada's industry minister recently travelled to Japan on business and took his wife and three children. The minister paid for his wife and children's costs out of his own pocket. The minister 74) _____
A) has created an agency problem by taking his family when travelling on government business.
B) has created an agency cost by charging the family's costs to his personal account.
C) has failed in his fiduciary responsibility to the public and should step down.
D) appears to have done nothing wrong in the fulfillment of his duties to the crown.

Answer: D

Explanation: A)
B)
C)
D)

75) In a corporation, the members of the board of directors are elected by the 75) _____
A) stockholders. B) employees.
C) chief executive officer. D) creditors.

Answer: A

Explanation: A)
B)
C)
D)

76) Included in the primary activities of the financial manager is/are 76) _____
A) making investment decisions. B) financial analysis and planning.
C) making financing decisions. D) all of the above.

Answer: D

Explanation: A)
B)
C)
D)

77) In planning and managing the requirements of the firm, the financial manager is concerned with 77) _____
A) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition.
B) the acquisition of fixed assets, allowing someone else to plan the level of current assets required.
C) the type of financing utilized, but not the mix and type of assets.
D) the mix and type of assets, but not the type of financing utilized.

Answer: A

Explanation: A)
B)
C)
D)

78) A&B Wholesalers sells 1,000 widgets per day at \$1 each. A&B has introduced a new product to its mix called the wiggle. It is estimated that A&B will sell 400 wiggles per day at \$2 each; however, the sales of the widgets will decrease by 200 units per day. The firm's marginal change in revenues from adopting the wiggle is 78) _____
A) \$1,600. B) \$800. C) \$1,800. D) \$600.

Answer: D

Explanation: A)
B)
C)
D)

79) Which of the following legal forms of organization's income is NOT taxed under individual income tax rate? 79) _____
A) limited partnerships B) sole proprietorships
C) partnerships D) corporations

Answer: D

Explanation: A)
B)
C)
D)

80) All of the following are measures that can be used as a guide for establishing a corporate ethics policy, EXCEPT 80) _____
A) making reference checks before hiring new employees.
B) an effective internal control system.
C) an effective internal audit system.
D) making sure violations are penalized, while at the same time not subjecting the employee to publicity.

Answer: D

Explanation: A)
B)
C)
D)

81) Finance can be defined as 81) _____
A) the system of debits and credits.
B) the science of the production, distribution, and consumption of wealth.
C) the art of merchandising products and services.
D) the art and science of managing money.

Answer: D

Explanation: A)
B)
C)
D)

82) The wealth of the owners of a corporation is represented by 82) _____
A) earnings per share. B) profits.
C) share price. D) cash flow.

Answer: C

Explanation: A)
B)
C)
D)

83) Which of the following is a disadvantage of an income trust? 83) _____
A) income trusts do not offer the potential for capital appreciation
B) only immature companies that do not have a regular cash flow can create income trusts
C) unitholders of income trusts have a lower claim on assets than the holders of debt securities
D) income trusts never provide stable cash flows

Answer: C

Explanation: A)
B)
C)
D)

84) All of the following are key strengths of a corporation EXCEPT 84) _____
A) readily transferable ownership. B) access to capital markets.
C) low organization costs. D) limited liability.

Answer: C

Explanation: A)
B)
C)
D)

85) Managing the firm's assets includes all of the following EXCEPT 85) _____
A) accounts receivable. B) fixed assets.
C) notes payable. D) inventory.

Answer: C

Explanation: A)
B)
C)
D)

86) A corporation 86) _____
A) is a legal entity, separate and distinct from its owners.
B) can sue and be sued, and can enter into contracts.
C) can borrow money and own property.
D) all of the above are true

Answer: D

Explanation: A)
B)
C)
D)

87) The amount earned during the accounting period on each outstanding share of common stock is called 87) _____
A) net profits after taxes. B) net income.
C) a common stock dividend. D) earnings per share.

Answer: D

Explanation: A)
B)
C)
D)

88) The treasurer is commonly responsible for 88) _____
A) making capital expenditures. B) data processing.
C) taxes. D) cost accounting.

Answer: A

Explanation: A)
B)
C)
D)

93) Emerging trends resulting from the agency problem are all of the following EXCEPT 93) _____
A) management by active investors.
B) large private corporations.
C) restructuring through leveraged buyouts.
D) prohibiting managers from maintaining an ownership interest.

Answer: D

Explanation: A)
B)
C)
D)

94) Bayside Equipment is considering buying new equipment. The existing machine produces 10 000 units a day at a cost of \$2 per unit. The new machine will produce 15 000 at a cost of \$1.50 a unit. Bayside sells each unit for \$4. What is the marginal benefit of the new machine 94) _____
A) \$38 500 B) \$20 000 C) \$7 500 D) \$22 500

Answer: A

Explanation: A)
B)
C)
D)

95) Marginal analysis states that financial decisions should be made and actions taken only when 95) _____
A) added benefits are greater than zero. B) added benefits exceed added costs.
C) benefits equal costs. D) demand equals supply.

Answer: B

Explanation: A)
B)
C)
D)

96) The financial manager may be responsible for any of the following EXCEPT 96) _____
A) determining whether to accept or reject a capital asset acquisition.
B) analyzing the effects of more debt on the firm's capital structure.
C) monitoring of quarterly tax payments.
D) analyzing budget and performance reports.

Answer: C

Explanation: A)
B)
C)
D)

97) The key role of the financial manager is 97) _____
A) the presentation of financial statements.
B) the preparation of data for future evaluation.
C) the collection of financial data.
D) decision making.

Answer: D

Explanation: A)
B)
C)
D)

98) Among solutions to the agency problem in publicly held corporations are all of the following EXCEPT 98) _____
A) bonuses based on short-term results. B) performance shares.
C) cash bonuses tied to goal achievement. D) stock options.

Answer: A
Explanation: A)
B)
C)
D)

99) Managerial finance 99) _____
A) recognizes 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
Explanation: A)
B)
C)
D)

100) About 75 percent of all business firms are 100) _____
A) partnerships. B) corporations.
C) cooperatives. D) sole proprietorships.

Answer: D
Explanation: A)
B)
C)
D)

101) The conflict between the goals of a firm's owners and the goals of its nonowner managers is 101) _____
A) the agency problem.
B) incompatibility.
C) of little importance in most large U.S. firms.
D) serious only when profits decline.

Answer: A
Explanation: A)
B)
C)
D)

102) PC Express is evaluating the purchase of a new machine that will cost \$300 000. The company 102) _____
bought the existing machine for \$200 000 five years ago and can sell it today for \$50 000. What is
the marginal cost of buying the new machine?
A) \$100 000 B) \$300 000 C) \$50 000 D) \$250 000

Answer: D
Explanation: A)
B)
C)
D)

103) Profit maximization does NOT take into consideration 103) _____
A) risk and eps. B) cash flow and stock price.
C) risk and cash flow. D) eps and stock price.

Answer: C

Explanation: A)
B)
C)
D)

104) The primary economic principle used in managerial finance is 104) _____
A) marginal analysis. B) supply and demand.
C) the crowding out effect. D) the liquidity trap.

Answer: A

Explanation: A)
B)
C)
D)

105) A major weakness of a partnership is 105) _____
A) limited liability.
B) difficulty liquidating or transferring ownership.
C) low organizational costs.
D) access to capital markets.

Answer: B

Explanation: A)
B)
C)
D)

106) The responsibility for managing day-to-day operations and carrying out corporate policies belongs 106) _____
to the
A) creditors. B) stockholders.
C) chief executive officer. D) board of directors.

Answer: C

Explanation: A)
B)
C)
D)

107) The officer responsible for the firm's accounting activities, such as corporate accounting, tax 107) _____
management, financial accounting, and cost accounting is
A) the foreign exchange manager. B) the treasurer.
C) the controller. D) none of the above.

Answer: C

Explanation: A)
B)
C)
D)

108) The primary emphasis of the financial manager is the use of _____ 108) _____
 A) cash flow. B) organization charts.
 C) accrued earnings. D) profit incentives.

Answer: A

Explanation: A)
 B)
 C)
 D)

109) _____ is responsible for the evaluation and recommendation of proposed asset investments. 109) _____
 A) The Financial Analyst B) The Credit Analyst
 C) The Capital Expenditures Analyst D) The Pension Fund Manager

Answer: C

Explanation: A)
 B)
 C)
 D)

110) A financial manager must choose between four alternative investments, 1, 2, 3, and 4. Each asset is expected to provide earnings over a three-year period as described below. 110) _____

<u>Asset</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
1	\$21,000	\$15,000	\$ 9,000
2	9,000	15,000	21,000
3	3,000	18,000	19,000
4	6,000	12,000	12,000

Based on the profit maximization goal, the financial manager would choose

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

Answer: A

Explanation: A)
 B)
 C)
 D)

111) The primary goal of the financial manager is _____ 111) _____
 A) maximizing wealth. B) minimizing risk.
 C) maximizing profit. D) minimizing return.

Answer: A

Explanation: A)
 B)
 C)
 D)

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

112) A firm's articles of incorporation and bylaws, along with government legislation, provide shareholders with a framework on how their firm will be governed. 112) _____

Answer: True False

Explanation:

- 113) In a limited partnership, only one partner may assume limited liability, all other partners have to have unlimited liability. 113) _____
Answer: True False
Explanation:
- 114) Agency costs are the reduction in shareholders' wealth when managers act to maximize their own wealth instead of shareholder wealth. 114) _____
Answer: True False
Explanation:
- 115) The treasurer typically handles the cost and financial accounting. 115) _____
Answer: True False
Explanation:
- 116) Return and risk are the key determinants of share price, which represents the wealth of the owners in the firm. 116) _____
Answer: True False
Explanation:
- 117) If a manager's compensation is based on a performance measure such as earnings per share, he/she has an incentive plan. 117) _____
Answer: True False
Explanation:
- 118) The controller is 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 foreign exchange. 118) _____
Answer: True False
Explanation:
- 119) The financial manager places primary emphasis on cash flows, the inflow and outflow of cash. 119) _____
Answer: True False
Explanation:
- 120) In a limited partnership, partners' liabilities are limited to their investment in the partnership. 120) _____
Answer: True False
Explanation:
- 121) Using certain standardized and generally accepted accounting principles, the accountant prepares financial statements that recognize revenue at the point of sale and expenses when incurred. 121) _____
Answer: True False
Explanation:
- 122) The financial manager must look beyond financial statements to obtain insight into developing or existing problems since the accrual accounting data do not fully describe the circumstances of a firm. 122) _____
Answer: True False
Explanation:

- 123) The separation of ownership and liability make the option of incorporating a private business very appealing. 123) _____
Answer: True False
Explanation:
- 124) Where risk is involved, stockholders expect to earn higher rates of return on investments of lower risk and vice versa. 124) _____
Answer: True False
Explanation:
- 125) In Canada, corporate boards seem to be drawn from a large subset of people representing the cultural differences of Canadians. 125) _____
Answer: True False
Explanation:
- 126) Marginal analysis states that financial decisions should be made and actions taken only when added benefits exceeds added costs. 126) _____
Answer: True False
Explanation:
- 127) The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer. 127) _____
Answer: True False
Explanation:
- 128) The financial manager prepares financial statements that recognize revenue at the point of sale and expenses when incurred. 128) _____
Answer: True False
Explanation:
- 129) The likelihood that managers may place personal goals ahead of corporate goals is called agency problem. 129) _____
Answer: True False
Explanation:
- 130) Financing decisions deal with the left-hand side of the firm's balance sheet and involve the most appropriate mix of current and fixed assets. 130) _____
Answer: True False
Explanation:
- 131) The wealth of corporate owners is measured by the share price of the stock. 131) _____
Answer: True False
Explanation:
- 132) Some of Canada's largest corporations include Nortel Networks, Bombardier, and the Royal Bank. 132) _____
Answer: True False
Explanation:

- 133) Financial services is concerned with the duties of the financial manager. 133) _____
Answer: True False
Explanation:
- 134) Financial managers actively manage the financial affairs of many types of business--financial and non-financial, private and public, for-profit and not-for-profit. 134) _____
Answer: True False
Explanation:
- 135) A financial analyst is responsible for maintaining and controlling the firm's daily cash balances. He or she frequently manages the firm's short-term investments and coordinates short-term borrowing and banking relationships. 135) _____
Answer: True False
Explanation:
- 136) The major disadvantage of the sole proprietorship and partnership is the *unlimited* liability of the business owners. 136) _____
Answer: True False
Explanation:
- 137) Dividend payments change directly with changes in earnings per share. 137) _____
Answer: True False
Explanation:
- 138) Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses and government. 138) _____
Answer: True False
Explanation:
- 139) A stock exchange is a secondary financial market. 139) _____
Answer: True False
Explanation:
- 140) Agents of corporate owners are themselves owners of the firm and have been elected by all the corporate owners to represent them in decision-making and management of the firm. 140) _____
Answer: True False
Explanation:
- 141) Economic value added is calculated by subtracting the cost of funds used to finance an investment from its after-tax operating profits. 141) _____
Answer: True False
Explanation:
- 142) In a partnership, owners have unlimited liability and may have to cover debts of other less financially sound partners. 142) _____
Answer: True False
Explanation:

- 143) The capital expenditures analyst/manager is responsible for the evaluation and recommendation of proposed asset investments and may be involved in the financial aspects of implementation of approved investments. 143) _____
Answer: True False
Explanation:
- 144) Managerial finance is concerned with the design and delivery of advice and financial products to individuals, businesses, and government. 144) _____
Answer: True False
Explanation:
- 145) Janice Smith has recently joined the Royal Bank of Canada as a Personal Financial Planner Representative; Janice is working in the area of managerial finance. 145) _____
Answer: True False
Explanation:
- 146) To achieve the goal of profit maximization, for each alternative being considered, the financial manager would select the one that is expected to result in the highest monetary return. 146) _____
Answer: True False
Explanation:
- 147) Market forces and agency costs help to prevent or minimize agency problems. 147) _____
Answer: True False
Explanation:
- 148) An agency problem is the acquisition of a firm by another firm or group that is not supported by management. 148) _____
Answer: True False
Explanation:
- 149) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase share price. 149) _____
Answer: True False
Explanation:
- 150) In a limited partnership, the liability protection does not protect partners from their individual acts of malpractice. 150) _____
Answer: True False
Explanation:
- 151) The goal of ethics is to motivate 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. 151) _____
Answer: True False
Explanation:

- 152) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase the firm's short-term profitability. 152) _____
Answer: True False
Explanation:
- 153) The treasurer's focus tends to be more external, while the controller's focus is more internal. 153) _____
Answer: True False
Explanation:
- 154) The sole proprietor has unlimited liability; only his or her total investment in the business can be taken to satisfy creditors. 154) _____
Answer: True False
Explanation:
- 155) A high eps does not necessarily translate into a high stock price. 155) _____
Answer: True False
Explanation:
- 156) High cash flow is generally associated with a higher share price whereas higher risk tends to result in a lower share price. 156) _____
Answer: True False
Explanation:
- 157) The CEO of a large corporation takes his family on a cruise charging the cost to his business account; this is considered an agency cost. 157) _____
Answer: True False
Explanation:
- 158) Jupiter Inc. is a non-public corporation owned by two Saskatchewan residents; Jupiter would be considered a Canadian Controlled Private Corporation for taxation purposes. 158) _____
Answer: True False
Explanation:
- 159) The accountant evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks. 159) _____
Answer: True False
Explanation:
- 160) In a partnership, a partner can readily transfer his/her wealth to other partners. 160) _____
Answer: True False
Explanation:
- 161) Accrual method recognizes revenue at the point of sale and recognizes expenses when incurred. 161) _____
Answer: True False
Explanation:

- 162) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees' pension fund. 162) _____
Answer: True False
Explanation:
- 163) The controller typically handles the accounting activities, such as tax management, data processing, and cost and financial accounting. 163) _____
Answer: True False
Explanation:
- 164) Corporations are the most common form of business organization. 164) _____
Answer: True False
Explanation:
- 165) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk. 165) _____
Answer: True False
Explanation:
- 166) The treasurer is the officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting. 166) _____
Answer: True False
Explanation:
- 167) The financial analyst administers the firm's credit policy by analyzing or managing the evaluation of credit applications, extending credit, and monitoring and collecting accounts receivable. 167) _____
Answer: True False
Explanation:
- 168) Higher risk tends to result in a higher share price since the stockholder must be compensated for the greater risk. 168) _____
Answer: True False
Explanation:
- 169) The president or chief executive officer is elected by the firm's stockholders and has ultimate authority to guide corporate affairs and make general policy. 169) _____
Answer: True False
Explanation:
- 170) Financial analysis and planning is concerned with analyzing the mix of assets and liabilities. 170) _____
Answer: True False
Explanation:
- 171) The Economic Value Added (EVA) is the difference between the cost of funds used to finance an investment and its after-tax operating profits. 171) _____
Answer: True False
Explanation:

172) Joe Tootosis and Frank Inn were working partners in a partnership that failed; at failure, the partnership debt was \$100,000. If Frank Inn has no assets, Joe Tootosis could be held liable for the entire \$100,000.

172) _____

Answer: True False

Explanation:

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

173) Name four approaches to corporate governance that shareholders rely upon to ensure managers do not act in their own self-interest at the expense of investors. Briefly explain each.

Answer: First, shareholders elect a Board of Directors to represent their interest to senior management, and directly monitor management. The board is then responsible to ensure that the senior managers act in the owners' best interests.

Second, managers are monitored and may be bonded. Monitoring expenditures include audit and control procedures. Bonding expenditures protect against the potential consequences of out-right theft and dishonest acts by managers.

Third, making managers owners may align their interests to the owners. Structuring expenditures use managerial compensation plans to provide financial incentives for managerial actions consistent with share price maximization. Structuring expenditures are currently the most popular way to deal with the agency problem — and also the most powerful and expensive. It is unclear whether these expenditures are effective in practice. Fourth, market forces include shareholder "voting" on management's performance through the market price of the common shares, institutional shareholders or other owners of large voting blocks of shares acting to discipline management, and takeovers. For example, shareholder activism from large institutional investors — can reduce or avoid the agency problem because these groups can use their voting power to elect new directors who support their objectives and will act to replace poorly performing managers. In this way, these groups place pressure on management to take actions that maximize shareholder wealth.

174) Last year, a firm had sales revenue of \$1,000,000 and net income after taxes of \$400,000. The accounts receivable account increased during the year from \$250,000 to \$350,000 and the accounts payable account decreased from \$200,000 to \$150,000. There were no depreciation charges or changes in other current accounts. Calculate the cash flow from operations for the firm.

Answer: $OCF = 400,000 + (250,000 - 350,000) - (200,000 - 150,000) = \$250,000$

175) The introduction of a mid-sized sedan has increased sales of the luxury model by 2,000 units and decreased sales of the economy model by 1,000 units. It is expected that sales of the mid-sized sedan will be 10,000 units at \$30,000 each. The sales price of the luxury model is \$40,000 and the economy model is \$20,000. Calculate the marginal change in revenues due to the introduction of the mid-sized sedan.

Answer: $\text{Change in revenues} = 10,000 \times 30,000 + 2,000 \times 40,000 - 1,000 \times 20,000 = \$360,000$

176) The Board of Directors of Blown Glass Ltd have requested an economic value added (EVA) for the most recent fiscal year. The total amount of capital Blown Glass has invested in the business is \$2 000 000. Blown Glass' cost of capital is 12 percent.. During the year, the company 's before-tax operating profits were \$150 000. The firm's tax rate is 32 percent. How has the company done in terms of creating value for the company's shareholder? Comment on the implications of your findings.

Answer:
$$\begin{aligned} \text{EVA} &= \text{After-tax operating profits} - (\text{funds invested} \times \text{cost of the funds}) \\ &= (150\,000 \times (1 - .32)) - (2\,000\,000 \times 12\%) \\ &= -138\,000 \end{aligned}$$

The company has been doing poorly in terms of creating value for the company's shareholders. The company's EVA is a negative \$138 000, which means it has generated a return that is less than the minimum required rate of return.

177) Give two examples of why net income and cash flow do not equal.

Answer: Two of:

1. Sales made to customers on credit.
2. Materials purchased but not yet paid for.
3. Depreciation charges for capital assets.

Answer Key
Testname: C1

- 1) C
- 2) B
- 3) C
- 4) C
- 5) B
- 6) B
- 7) B
- 8) A
- 9) C
- 10) D
- 11) A
- 12) D
- 13) B
- 14) C
- 15) D
- 16) C
- 17) D
- 18) A
- 19) C
- 20) C
- 21) B
- 22) B
- 23) B
- 24) B
- 25) B
- 26) C
- 27) D
- 28) C
- 29) A
- 30) D
- 31) B
- 32) C
- 33) A
- 34) C
- 35) C
- 36) C
- 37) B
- 38) A
- 39) D
- 40) C
- 41) A
- 42) B
- 43) D
- 44) B
- 45) C
- 46) D
- 47) D
- 48) C
- 49) D
- 50) B

Answer Key
Testname: C1

- 51) C
- 52) D
- 53) C
- 54) A
- 55) D
- 56) B
- 57) A
- 58) D
- 59) D
- 60) A
- 61) C
- 62) D
- 63) D
- 64) B
- 65) D
- 66) C
- 67) D
- 68) C
- 69) B
- 70) D
- 71) B
- 72) D
- 73) C
- 74) D
- 75) A
- 76) D
- 77) A
- 78) D
- 79) D
- 80) D
- 81) D
- 82) C
- 83) C
- 84) C
- 85) C
- 86) D
- 87) D
- 88) A
- 89) B
- 90) B
- 91) B
- 92) B
- 93) D
- 94) A
- 95) B
- 96) C
- 97) D
- 98) A
- 99) D
- 100) D

Answer Key
Testname: C1

- 101) A
- 102) D
- 103) C
- 104) A
- 105) B
- 106) C
- 107) C
- 108) A
- 109) C
- 110) A
- 111) A
- 112) TRUE
- 113) FALSE
- 114) TRUE
- 115) FALSE
- 116) TRUE
- 117) FALSE
- 118) FALSE
- 119) TRUE
- 120) FALSE
- 121) TRUE
- 122) TRUE
- 123) TRUE
- 124) FALSE
- 125) FALSE
- 126) TRUE
- 127) FALSE
- 128) FALSE
- 129) TRUE
- 130) FALSE
- 131) TRUE
- 132) TRUE
- 133) FALSE
- 134) TRUE
- 135) FALSE
- 136) TRUE
- 137) FALSE
- 138) TRUE
- 139) TRUE
- 140) FALSE
- 141) TRUE
- 142) TRUE
- 143) TRUE
- 144) FALSE
- 145) FALSE
- 146) TRUE
- 147) TRUE
- 148) FALSE
- 149) TRUE
- 150) TRUE

Answer Key
Testname: C1

- 151) TRUE
- 152) FALSE
- 153) TRUE
- 154) FALSE
- 155) TRUE
- 156) TRUE
- 157) TRUE
- 158) TRUE
- 159) FALSE
- 160) FALSE
- 161) TRUE
- 162) FALSE
- 163) TRUE
- 164) FALSE
- 165) TRUE
- 166) FALSE
- 167) FALSE
- 168) FALSE
- 169) FALSE
- 170) FALSE
- 171) TRUE
- 172) TRUE
- 173) First, shareholders elect a Board of Directors to represent their interest to senior management, and directly monitor management. The board is then responsible to ensure that the senior managers act in the owners' best interests.

Second, managers are monitored and may be bonded. Monitoring expenditures include audit and control procedures. Bonding expenditures protect against the potential consequences of out-right theft and dishonest acts by managers.

Third, making managers owners may align their interests to the owners. Structuring expenditures use managerial compensation plans to provide financial incentives for managerial actions consistent with share price maximization. Structuring expenditures are currently the most popular way to deal with the agency problem — and also the most powerful and expensive. It is unclear whether these expenditures are effective in practice. Four, market forces include shareholder "voting" on management's performance through the market price of the common shares, institutional shareholders or other owners of large voting blocks of shares acting to discipline management, and takeovers. For example, shareholder activism from large institutional investors — can reduce or avoid the agency problem because these groups can use their voting power to elect new directors who support their objectives and will act to replace poorly performing managers. In this way, these groups place pressure on management to take actions that maximize shareholder wealth.

- 174) $OCF = 400,000 + (250,000 - 350,000) - (200,000 - 150,000) = \$250,000$
- 175) $\text{Change in revenues} = 10,000 \times 30,000 + 2,000 \times 40,000 - 1,000 \times 20,000 = \$360,000$
- 176) $EVA = \text{After-tax operating profits} - (\text{funds invested} \times \text{cost of the funds})$
 $= (150,000 \times (1 - .32) - (2,000,000 \times 12\%))$
 $= - 138,000$

The company has been doing poorly in terms of creating value for the company's shareholders. The company's EVA is a negative \$138,000, which means it has generated a return that is less than the minimum required rate of return.

Answer Key

Testname: C1

177) Two of:

1. Sales made to customers on credit.
2. Materials purchased but not yet paid for.
3. Depreciation charges for capital assets.