

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

1) In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire. 1) _____

Answer: True False

Explanation:

Page Ref:

Topic: 01-04 Financial Management Decisions

2) The size, timing and risk of cash flows are important when evaluating a capital budgeting decision. 2) _____

Answer: True False

Explanation:

Page Ref:

Topic: 01-04 Financial Management Decisions

3) A capital expenditure project becomes desirable when the project is worth more to the firm than the cost to acquire it. 3) _____

Answer: True False

Explanation:

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Topic: 01-04 Financial Management Decisions

4) A capital expenditure project becomes desirable when the value of the cash flow generated by the project exceeds the project's cost. 4) _____

Answer: True False

Explanation:

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Topic: 01-04 Financial Management Decisions

5) Capital structure determines the least expensive sources of funds for the firm to borrow. 5) _____

Answer: True False

Explanation:

Page Ref:

Topic: 01-04 Financial Management Decisions

6) Capital structure determines how much debt the firm should have in relation to its level of equity. 6) _____

Answer: True False

Explanation:

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Topic: 01-04 Financial Management Decisions

- 7) Capital structure determines the level of current assets that is required to maintain the firm's operational level. 7) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-04 Financial Management Decisions
- 8) Capital structure determines how much risk is associated with the future cash flows of a project. 8) _____
Answer: True False
Explanation:
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Topic: 01-04 Financial Management Decisions
- 9) Determining when a supplier should be paid is a capital structure decision. 9) _____
Answer: True False
Explanation:
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Topic: 01-04 Financial Management Decisions
- 10) Establishing the accounts receivable policies is a capital structure decision. 10) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-04 Financial Management Decisions
- 11) Determining the amount of money to borrow in order to finance a 10-year project is a capital structure decision. 11) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-04 Financial Management Decisions
- 12) Deciding if a new project should be accepted is a working capital decision. 12) _____
Answer: True False
Explanation:
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Topic: 01-04 Financial Management Decisions

- 13) When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important. 13) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-04 Financial Management Decisions
- 14) Working capital management addresses the firm's appropriate level of inventory. 14) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-04 Financial Management Decisions
- 15) Common stockholders or limited partners can lose, at most, what they have invested in a firm. 15) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-08 Corporation; 01-07 Partnership
- 16) Partnership income is treated as personal income of the partners. 16) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-07 Partnership
- 17) A limited partner can lose his or her investment in the partnership. 17) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-07 Partnership
- 18) Maximization of the current earnings of the firm is the main goal of the financial manager. 18) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-13 The Goal of Financial Management

- 19) The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation. 19) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-13 The Goal of Financial Management
- 20) The primary goal of financial management is to minimize the corporate tax liability. 20) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-11 The Goal of Financial Management
- 21) Control of the firm ultimately rests with board of directors. They elect the management, who, in turn, lead the company. 21) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?
- 22) The Sarbanes-Oxley Act was intended to protect investors from corporate abuses. 22) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?
- 23) The Sarbanes-Oxley Act was intended to increase corporate social responsibility of publicly listed organizations. 23) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?
- 24) The goal of financial managers does not imply that illegal or unethical actions should be taken in the hope of increasing the value of the the firm. 24) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

- 25) The collapse of companies like Enron and Worldcom illustrates the impact unethical behaviour on public trust and confidence. 25) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 26) Unethical behaviour does not impact volatility of the stock markets. 26) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 27) 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". 27) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?; 01-15 The Agency Problem and Control of the Corporation
- 28) When owners are managers (such as in a sole proprietorship), a firm will have agency costs. 28) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-17 Management Goals
- 29) IBEC Inc. of Toronto spends approximately \$2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost. 29) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-17 Management Goals
- 30) Control of the firm ultimately rests with shareholders. They elect the board of directors, who, in turn, hire and fire management. 30) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?

- 31) Stakeholder theory suggests that employees, customers, suppliers, and various levels of government all have financial interests in the firm. 31) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-18 Do Managers Act in the Shareholders Interests?
- 32) Corporate social responsibility (CSR) is also referred to as corporate sustainability. 32) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 33) Corporate social responsibility (CSR) is also referred to as the triple bottom line. 33) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 34) The triple bottom line is defined as a company's commitment to operate in an economically, socially and environmentally sustainable manner. 34) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 35) There is a significant relationship between CSR activity and corporate performance. 35) _____
Answer: True False
Explanation:
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing
- 36) Research results on CSR activity and corporate performance has been mixed. 36) _____
Answer: True False
Explanation:
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Topic: 01-19 Corporate Social Responsibility and Ethical Investing

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

- 37) A proprietorship is: 37) _____
- A) A business owned by an individual who has unlimited personal liability.
 - B) A business managed by a single general partner.
 - C) A separate legal body formed by an individual who has limited personal liability.
 - D) A business formed by two or more individuals.
 - E) A limited liability form of business ownership.

Answer: A

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 38) Which of the following would be considered a primary market transaction? 38) _____
- A) A buy order to a broker for shares of a company on the TSX.
 - B) A sell order to a broker for a stock listed on the TSX.
 - C) A buy order to a dealer for shares of a company OTC.
 - D) A buy order to an investment banker for a new public stock offering.
 - E) A buy order to a broker for shares of a company on the Venture Exchange.

Answer: D

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

39) A stakeholder is:

39) _____

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

40) In a limited partnership:

40) _____

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

41) A stakeholder is:

41) _____

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

42) An agency problem is said to exist when there is a conflict of interest between _____ and _____.

42) _____

- A) An agent; his or her representative.
- B) One shareholder; another shareholder.
- C) A shareholder; a stakeholder.
- D) A principal; his or her agent.
- E) A broker; a dealer.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-16 Agency Relationships

- 43) Which one of the following statements concerning a proprietorship is true? 43) _____
- A) Income from a proprietorship is taxed as a separate entity.
 - B) A proprietorship can be a business jointly owned by two family members.
 - C) A partial transfer of ownership is easier with a proprietorship than with a corporation.
 - D) Income from a proprietorship is taxed at a lower rate than other personal income.
 - E) A proprietor is personally responsible for 100% of the firm's liabilities.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 44) 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 _____. 44) _____
- A) A secondary market operated as a dealer market.
 - B) A secondary market operated as an auction market.
 - C) A secondary market operated as a money market.
 - D) A primary market operated as an auction market.
 - E) A primary market operated as a dealer market.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 45) Which one of the following is a correct statement concerning a sole proprietorship? 45) _____
- A) A sole proprietorship is more highly regulated than a corporation.
 - B) A sole proprietorship is relatively difficult to form.
 - C) The losses incurred by a sole proprietor are limited to the amount invested in the firm.
 - D) It may be difficult to transfer the ownership of a sole proprietorship.
 - E) The profits earned by a sole proprietorship are subject to double taxation.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 46) What is the difference between third and fourth markets? 46) _____
- A) A third market involves trading institution-to-institution trading without using the services of brokers or dealers trading, while a fourth market involves trading exchange-listed securities in OTC markets.
 - B) A third market involves trading in call options, while a fourth market involves trading in warrants.
 - C) A third market involves trading exchange-listed securities in OTC markets, while a fourth market trading involves institution-to-institution trading without using the services of brokers or dealers.
 - D) A third market involves trading in corporate debt, while a fourth market involves trading in corporate equities.
 - E) A third market involves trading in corporate equities, while a fourth market involves trading in corporate debt.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

47) The best definition of "capital structure" is:

47) _____

- A) A venue where long-term debt and equity securities are bought and sold.
- B) How a firm is financed through different proportions of debt and equity.
- C) A venue where buyers and sellers of capital equipment come together to trade such assets.
- D) The possibility of conflicts between shareholders and management in a large corporation.
- E) The process of planning and managing a firm's long-term investments.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

48) The best definition of "capital markets" is:

48) _____

- A) A venue where long-term debt and equity securities are bought and sold.
- B) A venue where buyers and sellers of capital equipment come together to trade such assets.
- C) The possibility of conflicts between shareholders and management in a large corporation.
- D) The purchase or sale of securities whose value derives from the price of another, underlying, asset.
- E) The process of planning and managing a firm's long-term investments.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-22 Money versus Capital Markets

- 49) Which one of the following actions is the best example of an agency problem? 49) _____
- A) Paying management bonuses based on the current market value of the firm's stock.
 - B) Requiring stockholders approval of all management compensation decisions.
 - C) Paying management bonuses based on the number of store locations opened during the year.
 - D) Accepting a project that enhances both management salaries and the market value of the firm's stock.
 - E) Basing management bonuses on the attainment of specific financial goals.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

- 50) Which of the following accounts does not relate to working capital management decisions? 50) _____
- A) Accounts payable.
 - B) Long-term debt.
 - C) Short-term debt.
 - D) Inventory.
 - E) Accounts receivable.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 51) The process of planning and managing a firm's Long-term investments is called: 51) _____
- A) Capital budgeting.
 - B) Working capital management.
 - C) Agency cost analysis.
 - D) Capital structure.
 - E) Financial depreciation.

Answer: A

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 52) The mixture of debt and equity used by the firm to finance its operations is called: 52) _____
- A) Capital budgeting.
 - B) Capital structure.
 - C) Financial depreciation.
 - D) Working capital management.
 - E) Agency cost analysis.

Answer: B

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 53) The process of planning and managing a firm's long-term investments is called: 53) _____
- A) Financial depreciation.
 - B) Working capital management.
 - C) Capital structure.
 - D) Capital budgeting.
 - E) Agency cost analysis.

Answer: D

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 54) The management of the firm's short-term assets and liabilities is called: 54) _____
- A) Working capital management.
 - B) Capital structure.
 - C) Capital budgeting.
 - D) Agency cost analysis.
 - E) Financial depreciation.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 55) In corporate agency theory, managers are _____, and owners are _____. 55) _____
- A) Shareholder; bondholders.
 - B) Bondholders; shareholder.
 - C) Principals; agents.
 - D) Agents; contractors.
 - E) Agents, principals.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-16 Agency Relationships

- 56) Which one of the following actions by a financial manager creates an agency problem? 56) _____
- A) Increasing current costs in order to increase the market value of the stockholders' equity.
 - B) Refusing to borrow money when doing so will create losses for the firm.
 - C) Agreeing to pay bonuses based on the market value of the company stock.
 - D) Agreeing to expand the company at the expense of stockholders' value.
 - E) Refusing to lower selling prices if doing so will reduce the net profits.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

- 57) Which one of the following statements is correct concerning the listing of stock on an exchange? 57) _____
- 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) The number of shareholders is NOT a listing consideration for a stock.
 - D) All exchanges have the same listing requirements.
 - E) Listing requirements are established by the Ontario Securities Commission.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

58) Which of the following statements concerning auction markets is correct?

58) _____

- A) NASDAQ is an auction market.
- B) An auction market is called an over-the-counter market.
- C) The TSX is an auction market.
- D) All trades involve a dealer in an auction market.
- E) A market where buyers specify the lowest price they are willing to pay and sellers indicate the highest price they are willing to accept.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

59) Capital structure decisions include which of the following?

59) _____

- A) Evaluating the size of inventory to be kept on hand.
- B) Allocating funds to the various divisions within the firm.
- C) Evaluating the customer credit policy.
- D) Determining the number of shares of stock to issue.
- E) Determining whether the firm should purchase or lease some equipment.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

60) The document that legally establishes domicile for a corporation is called the:

60) _____

- A) Amended homestead filing.
- B) Partnership agreement.
- C) Articles of incorporation.
- D) Indenture contract.
- E) Bylaws.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

61) NASDAQ is:

61) _____

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

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

62) Of the following, which statement regarding agency costs is false?

62) _____

- A) If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management.
- B) An agency problem exists when there is a conflict of interest between the stockholders and management of a firm.
- C) An agency problem exists when there is a conflict of interest between a principal and an agent.
- D) 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.
- E) A corporate expenditure that benefits stockholders but harms management is an agency cost.

Answer: E

Explanation: A)

B)

C)

D)

E)

Page Ref:

Topic: 01-17 Management Goals

63) Which one of the following is a primary market transaction?

63) _____

- A) A bank selling shares of a medical firm to an individual.
- B) A sole proprietor buying shares of stock from an individual investor.
- C) A dealer selling shares of stock to an individual investor.
- D) An individual investor selling shares of stock to another individual.
- E) A dealer buying newly issued shares of stock from a corporation.

Answer: E

Explanation: A)

B)

C)

D)

E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 64) Which one of the following transactions would occur in the primary market? 64) _____
- A) A financial institution buying shares of LM stock from an LM executive.
 - B) A financial institution selling shares of OPQ stock to another financial institution.
 - C) An individual selling shares of JKL stock to an existing JKL shareholder.
 - D) The gifting of ABC Co. shares by a grandmother to her grandchildren.
 - E) KM Co. selling new shares of stock to a financial institution.

Answer: E

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 65) The size, risk, and timing of future cash flows are the key elements evaluated in the: 65) _____
- A) Analysis of current assets.
 - B) Capital budgeting process.
 - C) Cash management process.
 - D) Capital structure decision.
 - E) Analysis of working capital.

Answer: B

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 66) Dealer markets: 66) _____
- A) Are called over-the-counter markets.
 - B) Are reserved strictly for trading debt securities.
 - C) Include NASDAQ and the New York Stock Exchange.
 - D) List only the securities of the largest firms.
 - E) Only exist outside of Canada.

Answer: A

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

67) 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?

67) _____

- A) As a corporation.
- B) As a general partnership.
- C) As a sole proprietorship.
- D) As a real estate investment trust.
- E) As a limited partnership.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

68) A firm's capital structure is defined:

68) _____

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

69) The primary goal of financial management is to:

69) _____

- A) Avoid financial distress.
- B) Maintain steady earnings growth.
- C) Maximize the current value per share of the existing stock.
- D) Minimize operational costs.
- E) Maximize current sales.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

70) Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?

70) _____

- A) Maintain steady earnings growth.
- B) Maximize the current value per share of the existing stock.
- C) Maximize profits.
- D) Avoid financial distress.
- E) Maximize sales.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

71) An individual who buys and sells stocks for his/her own account is a: 71) _____
A) OTC broker.
B) Broker.
C) Dealer.
D) Auctioneer.
E) Agent.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets; 01-22 Money versus Capital Markets

72) Ensuring that a firm has sufficient cash available on a daily basis is part of: 72) _____
A) Organizational structure.
B) Business organization.
C) Capital structure.
D) Capital budgeting.
E) Working capital management.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

73) Which of the following would be considered a secondary market transaction? 73) _____
A) Buy or sell orders only for corporate bonds.
B) Buy or sell orders to a broker for shares listed on the TSX.
C) Buy or sell orders only for call or put options.
D) Buy or sell orders for corporate warrants.
E) Buy or sell orders for shares listed on the TSX or corporate bonds.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

74) A dealer is a person who:

74) _____

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets; 01-22 Money versus Capital Markets

75) According to the statement of financial position model of the firm, corporate finance can be thought of as an analysis of three primary subject areas. Which of the following correctly lists these areas?

75) _____

- A) Capital structure, capital budgeting, security analysis.
- B) Capital structure, net working capital, capital rationing.
- C) Capital budgeting, capital structure, net working capital.
- D) Capital budgeting, capital structure, capital spending.
- E) Capital budgeting, capital spending, net working capital.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

76) The decision of which lender to use and which type of long-term loan is best for a project is part of:

76) _____

- A) A controller's duties.
- B) The net working capital decision.
- C) Capital budgeting.
- D) Working capital management.
- E) The capital structure decision.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

77) The decision to issue debt rather than additional shares of stock is an example of:

77) _____

- A) Working capital management.
- B) A net working capital decision.
- C) A controller's duties.
- D) Capital budgeting.
- E) Capital structure decision.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 78) The mix of debt and equity by which a corporation is financed refers to the firm's: 78) _____
- A) Capital structure.
 - B) Leverage management.
 - C) Cash management.
 - D) Capital budgeting.
 - E) Working capital management.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 79) Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing \$.40 for every \$1 invested by shareholders. Mr. Webster was referring to the _____ policy of the firm. 79) _____
- A) Capital structure.
 - B) Financial planning.
 - C) Capital budgeting.
 - D) Working capital.
 - E) Capital investment.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

80) Deciding whether or not to open a new store is part of the process known as: 80) _____
A) Working capital management.
B) Capital budgeting.
C) Cash management.
D) Credit management.
E) Capital structure.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

81) The Chief Financial Officer of a corporation is the: 81) _____
A) President.
B) Vice President of Finance.
C) Corporate Treasurer.
D) Chief Executive Officer.
E) Chairman of the Board.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

82) The treasurer and the controller of a corporation generally report to the: 82) _____
A) Board of directors.
B) President.
C) Chairman of the board.
D) Vice president of finance.
E) Chief executive officer.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

83) The treasurer of a firm is most apt to report to the:

83) _____

- A) Chief operating officer.
- B) President.
- C) Chief executive officer.
- D) Controller.
- E) Vice president of finance.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

84) Which of the following is considered a primary market transaction?

84) _____

- A) Labatt's just announced what their upcoming quarterly dividend payment will be.
- B) Chrysler Canada's stockholders sell some of their shares to an activist investor.
- C) On September 25, 1995, 30.8 million shares of stock changed hands on the TSX.
- D) A firm sells stock to the public for the first time in an IPO.
- E) An investor buys stock in Chrysler Canada from his buddy.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

85) Which of the following statement is correct regarding control of the firm?

85) _____

- A) Control of the firm ultimately rests with shareholders. They elect the board of directors, who, in turn, hire and fire management.
- B) Control of the firm rests with regulatory bodies working in unison with executives.
- C) Control of the firm rests with government agencies and regulatory bodies working in unison with the board of directors.
- D) Control of the firm ultimately rests with board of directors. They elect the management, who, in turn, lead the company.
- E) Control of the firm rests with the executives that oversee the strategic planning.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

86) The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:

86) _____

- A) Controller.
- B) Chief executive officer.
- C) Director.
- D) Treasurer.
- E) Chairman of the board.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

- 87) The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the: 87) _____
- A) Chairman of the board.
 - B) Director.
 - C) Chief operations officer.
 - D) Controller.
 - E) Treasurer.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

- 88) The corporate document that sets forth the business purpose of a firm is the: 88) _____
- A) Corporate charter.
 - B) Corporate bylaws.
 - C) Indenture contract.
 - D) Articles of incorporation.
 - E) Provincial tax agreement.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

- 89) The corporate officer generally responsible for tasks related to tax management, cost accounting, financial accounting, and data processing is the: 89) _____
- A) Corporate Controller.
 - B) Director.
 - C) Vice President of Operations.
 - D) Corporate Treasurer.
 - E) Chairman of the Board.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

- 90) The corporate officer generally responsible for tasks related to cash and credit management, financial planning, and capital expenditures is the: 90) _____
- A) Director.
 - B) Chairman of the Board.
 - C) Vice President of Operations.
 - D) Corporate Treasurer.
 - E) Corporate Controller.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

91) Agency costs are:

91) _____

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

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-17 Management Goals

92) The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?

92) _____

- A) Limited proprietorship.
- B) Hybrid partnership.
- C) Corporation.
- D) Sole proprietorship.
- E) Partnership.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

- 93) Which one of the following business types is best suited to raising large amounts of capital? 93) _____
- A) General partnership.
 - B) Limited partnership.
 - C) Sole proprietorship.
 - D) Corporation.
 - E) Limited liability company.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

- 94) The mixture of debt and equity used by a firm to finance its operations is called: 94) _____
- A) Financial depreciation.
 - B) Working capital management.
 - C) Cost analysis.
 - D) Capital budgeting.
 - E) Capital structure.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

95) The best definition of "financial engineering" is:

95) _____

- A) The purchase or sale of securities whose value derives from the price of another, underlying, asset.
- B) A company that owns or finances engineering projects.
- C) A company that owns or finances income-producing real estate.
- D) Creation of new securities or financial processes.
- E) Financial markets where long-term debt and equity securities are bought and sold.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-25 Trends in Financial Markets and Financial Management

96) Which one of the following groups is the goal of financial management centered around?

96) _____

- A) Existing shareholders.
- B) Potential new shareholders.
- C) Existing management.
- D) The CRA.
- E) Current creditors.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

97) The primary goal of financial management is to maximize the:

97) _____

- A) Growth rate of a firm.
- B) Current value of each share of outstanding stock.
- C) Compensation of the corporate officers.
- D) Number of shares of common stock outstanding.
- E) Book value of the firm.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

98) The Corporate Treasurer is in charge of:

98) _____

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

99) A market where dealers buy and sell securities for themselves, at their own risk, is called 99) _____

a(n):

- A) Secondary market.
- B) Primary market.
- C) Dealer market.
- D) Liquidation market.
- E) Auction market.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets; 01-22 Money versus Capital Markets

100) A market where trading takes place directly between buyers and sellers is called a(n): 100) _____

- A) OTC market.
- B) Dealer market.
- C) Primary market.
- D) Auction market.
- E) Liquidation market.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

101) The original sale of securities by governments and corporations occurs in the: 101) _____
A) Liquidation market.
B) Auction market.
C) Secondary market.
D) Primary market.
E) Dealer market.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

102) The purchase and sale of securities after the original issuance occurs in the: 102) _____
A) Dealer market.
B) Primary market.
C) Liquidation market.
D) Secondary market.
E) Auction market.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

103) A market where trading takes place between buyers and sellers directly is called a(n): 103) _____
A) Dealer market.
B) Primary market.
C) Liquidation market.
D) Secondary market.
E) Auction market.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 104) The purchase and sale of shares between investors are done in which market? 104) _____
- A) Derivatives market.
 - B) Debt market.
 - C) Secondary market.
 - D) Tertiary market.
 - E) Foreign exchange market.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 105) Suppliers, customers, and employees of a corporation are called: 105) _____
- A) Shareholders.
 - B) Creditors.
 - C) Stakeholders.
 - D) Partners.
 - E) Debtors.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

- 106) Which one of the following is a capital budgeting decision? 106) _____
- A) Determining how much debt should be borrowed from a particular lender.
 - B) Determining how much money should be kept in the chequing account.
 - C) Deciding whether or not to open a new store.
 - D) Deciding when to repay a long-term debt.
 - E) Determining how much inventory to keep on hand.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

107) Which of the following is NOT a duty of a financial manager?"

107) _____

- A) Deciding the mix of long-term debt and equity.
- B) Deciding how much short-term debt to use.
- C) Deciding how much interest to pay the holders of the corporation's bonds.
- D) Deciding on the optimal product mix to sell.
- E) Deciding which projects a firm should undertake.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions; 01-03 The Financial Manager

108) The best definition of "agency problem" is:

108) _____

- A) Determining who should be the agent of corporate executives.
- B) The possibility of conflicts between shareholders and management in a large corporation.
- C) The purchase or sale of securities whose value derives from the price of another, underlying, asset.
- D) Determining the optimal mix of internal and external board of directors.
- E) The process of planning and managing a firm's long-term investments.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-15 The Agency Problem and Control of the Corporation

- 109) The primary purpose of capital budgeting is to: 109) _____
- A) Determine the risk level of a project.
 - B) Determine the amount of cash and inventory to keep on hand.
 - C) Estimate the initial cost of a project.
 - D) Identify projects that produce cash flows that exceed the cost of the project.
 - E) Distinguish projects that have at least a five-year life from those that don't.

Answer: D

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 110) Cash flow from a firm's assets can be: 110) _____
- A) Reinvested to other companies.
 - B) Reinvested back in the company.
 - C) Distributed to bondholders.
 - D) Invested in money market funds.
 - E) Paid out as interest.

Answer: B

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-21 Cash Flows to and from the Firm

- 111) Which of the following are disadvantages of the partnership form of ownership? 111) _____
- A) Double taxation and limited firm life.
 - B) Ease of formation and ease of ownership transfer.
 - C) Personal liability and limited firm life.
 - D) Ease of formation and unlimited firm life.
 - E) Personal liability and double taxation.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 112) Which of the following is considered a benefit of the corporate form of organization? 112) _____
- A) Ease of reporting.
 - B) Ease of entry into stock exchange.
 - C) Ease of the transfer of ownership.
 - D) Double taxation.
 - E) Limited life.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

- 113) In a general partnership: 113) _____
- A) Each partner is responsible only for his/her portion of the firm's debt based on ownership percentage.
 - B) Each partner is liable only for the portion of the total debt he/she agreed in writing to pay.
 - C) Only the general partner is liable for the firm's debt.
 - D) None of the partners are personally liable for the firm's debt.
 - E) Each partner is personally responsible for all of the firm's debt.

Answer: E

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 114) Two of the primary advantages of a sole proprietorship are the: 114) _____
- A) Ease of company formation and less regulation.
 - B) Ease of ownership transfer and ease of company formation.
 - C) Ease of company formation and limited liability.
 - D) Ability to raise capital and less regulation.
 - E) Ease of ownership transfer and less regulation.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 115) Which one of the following actions best meets the goal of financial management? 115) _____
- A) Delaying cash payments in order to increase the total cash on hand.
 - B) Issuing additional shares of stock to increase the total cash on hand.
 - C) Easing the accounts receivable policies in order to increase current sales.
 - D) Deciding a firm should be 100% equity financed.
 - E) Accepting a project that enhances the current market value of the firm's stock.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

116) Working capital management:

116) _____

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

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

117) The management of a firm's short-term assets and liabilities is called:

117) _____

- A) Working capital management.
- B) Equity management.
- C) Debt management.
- D) Capital structure.
- E) Capital budgeting.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 118) Which one of the following is a capital budgeting decision? 118) _____
- A) Deciding whether or not the firm should open another retail outlet.
 - B) Determining which bank has the best loan terms.
 - C) Establishing the length of time for which store credit will be offered.
 - D) Evaluating the minimal amount of cash which the firm should keep on hand.
 - E) Ascertaining the optimal level of inventory.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 119) A general partner: 119) _____
- A) Has more management responsibility than a limited partner.
 - B) Faces double taxation whereas a limited partner does not.
 - C) Has less legal liability than a limited partner.
 - D) Cannot lose more than the amount of his/her equity investment.
 - E) Is the term applied only to corporations which invest in partnerships.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 120) The treasurer can be defined as the person who is generally responsible for overseeing the _____ of a firm. 120) _____
- A) Cost accounting.
 - B) Tax matters.
 - C) Financial planning.
 - D) Data processing functions.
 - E) Financial accounting.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

- 121) Which of the following does NOT correctly finish this sentence: In Canada, _____. 121) _____
- A) Over-the-counter markets are operated as auction markets.
 - B) Financial markets function as both primary and secondary markets for debt and equity securities.
 - C) Auction markets have a physical location.
 - D) The OTC market does not have a central location.
 - E) New issues of securities occur in primary markets.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

122) The best definition of "money markets" is:

122) _____

- A) Financial markets where shares are bought and sold for cash.
- B) Financial markets where foreign currency is bought and sold.
- C) Financial markets where short-term debt securities are bought and sold.
- D) Financial markets where long-term debt and equity securities are bought and sold.
- E) Financial markets where long-term debt securities are bought and sold.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-22 Money versus Capital Markets

123) The best definition of "REIT" is:

123) _____

- A) Financial markets where long-term debt securities are bought and sold.
- B) A company that owns or finances income-producing real estate.
- C) Financial markets where short-term debt securities are bought and sold.
- D) Financial markets where long-term debt and equity securities are bought and sold.
- E) Financial markets where foreign currency is exchanged for real estate.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-09 Income Trust

124) The best definition of "capital budgeting" is:

124) _____

- A) The process of planning and managing a firm's long-term investments.
- B) The possibility of conflicts between shareholders and management in a large corporation.
- C) Financial markets where long-term debt and equity securities are bought and sold.
- D) The annual process of providing a benchmark for financial performance.
- E) The purchase or sale of securities whose value derives from the price of another, underlying, asset.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

125) The best definition of "derivative securities" is:

125) _____

- A) Financial markets where long-term debt and equity securities are bought and sold.
- B) An insurance policy that ensures underlying assets are secured.
- C) Creation of new securities or financial processes.
- D) A compensation package for managers that ties their salary to the firm's share price.
- E) Investment products whose value derives from the price of another, underlying, asset.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-25 Trends in Financial Markets and Financial Management

- 126) A business formed by two or more individuals who each have unlimited liability for business debts is called a: 126) _____
- A) Sole proprietorship.
 - B) Corporation.
 - C) Limited liability company.
 - D) Limited partnership.
 - E) General partnership.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 127) A business created as a distinct legal entity composed of one or more individuals or entities is called a: 127) _____
- A) General partnership.
 - B) Corporation.
 - C) Unlimited liability company.
 - D) Limited partnership.
 - E) Sole proprietorship.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

128) Which one of the following is a disadvantage of a partnership?

128) _____

- A) Complexity and cost of partnership formation.
- B) Double taxation.
- C) The debt obligations of a limited partner.
- D) Growth limitations due to the inability to raise investment capital.
- E) Ability to raise capital as compared to a sole proprietorship.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-07 Partnership

129) Which statement best describes hedge funds?

129) _____

- A) Hedge funds are regulated and publicly managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds.
- B) Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds.
- C) Hedge funds are secondary market sources of raising capital for startup companies.
- D) Hedge funds are highly regulated and publicly managed investment funds catering to novice investors, which look to earn average returns using simple financial strategies similar to mutual funds.
- E) Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies similar to mutual funds.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-24 Financial Institutions

130) Which of the following statements is false concerning limited partnerships?

130) _____

- A) In a limited partnership, all partners share is limited to the amount contributed to the partnership.
- B) Limited partnerships have limited liability (to the extent of their investment).
- C) Limited partners are responsible for all debts of the partnership.
- D) Limited partnerships can bring in more partners.
- E) Limited partners generally do not manage the partnership.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

131) Which one of the following statements concerning a partnership is true?

131) _____

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 132) A sole proprietorship is best defined as a business owned by: 132) _____
- A) An individual for less than ten years.
 - B) Individuals who enjoy limited liability.
 - C) A single individual who has unlimited liability for the firm's debts.
 - D) A single individual who has limited liability for the firm's debts.
 - E) One or more individuals who have agreed to accept unlimited liability for the firm.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 133) The area of corporate finance concerned purchasing and selling stocks and bonds is called: 133) _____
- A) Strategic finance.
 - B) Investments.
 - C) International finance.
 - D) Institutional finance.
 - E) Municipal finance.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-24 Financial Institutions

134) An individual who places an order to buy 1000 shares of IBM stock:

134) _____

- A) Is involved in a private placement of securities.
- B) Is most likely involved in an IPO.
- C) Has to be listed as a private dealer.
- D) Must have hired a dealer to perform this transaction.
- E) Is most likely participating in the secondary market.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

135) Working capital management:

135) _____

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

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 136) Which one of the following actions by a financial manager is most aligned with the goal of financial management? 136) _____
- A) Increasing the bonuses paid to the top executives as the size of the firm increases.
 - B) Improving the efficiency of the company such that the value of the stock increases.
 - C) Increasing the size of a firm by acquiring a non-profitable competitor.
 - D) Increasing the sales of the firm by expanding the company's sales force.
 - E) Issuing additional shares of stock to repay all of the firm's long-term debt.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

- 137) What was the intent of the Sarbanes-Oxley Act? 137) _____
- A) It was intended to increase corporate social responsibility of publicly listed organizations.
 - B) It was intended to provide consumer protection on product quality.
 - C) It was intended to harmonize accounting standards in North America.
 - D) It was intended to protect employees through better corporate codes of conduct.
 - E) It was intended to protect investors from corporate abuses.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

- 138) An entity wherein one or more owners may elect to actively manage the firm while other owners choose limited liability instead of management responsibility is called a: 138) _____
- A) Limited liability corporation.
 - B) General partnership.
 - C) Limited partnership.
 - D) Corporation.
 - E) Limited liability company.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 139) Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a _____. 139) _____
- A) Limited liability company.
 - B) Corporation.
 - C) Co-operative(Co-op)
 - D) Sole proprietorship.
 - E) Limited partnership.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

140) A business that is a distinct legal entity is a:

140) _____

- A) Corporation.
- B) Limited partnership.
- C) Partnership with only two partners.
- D) Proprietorship.
- E) General partnership.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

141) It is easiest to raise capital for a project under which form of business organization?

141) _____

- A) Sole proprietorship.
- B) Corporation.
- C) General partnership.
- D) Limited partnership.
- E) The form of business organization does NOT affect the ability to raise capital.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

142) Robert Fischer is one of the owners of a firm which generated \$18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert is a partial owner of a: 142) _____

- A) Limited liability company.
- B) General partnership.
- C) Limited partnership.
- D) Non-dividend paying corporation.
- E) Sole proprietorship.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

143) Which type of business organization has all the respective rights and privileges of a legal person? 143) _____

- A) General partnership.
- B) Sole proprietorship.
- C) Corporation.
- D) Limited partnership.
- E) Limited liability company.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

144) Which form of business structure faces the greatest agency problems?

144) _____

- A) General partnership.
- B) Limited partnership.
- C) Corporation.
- D) Limited liability company.
- E) Sole proprietorship.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-16 Agency Relationships

145) Which of the following are advantages of the corporate form of ownership?

145) _____

- A) Ability to raise capital and limited firm life.
- B) Ease of ownership transfer and simplicity of company formation.
- C) Limited personal liability and ability to raise capital.
- D) Simplicity of company formation and the ability to raise capital.
- E) Limited personal liability and limited firm life.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

146) Working capital management is concerned with which statement of financial position accounts? 146) _____

- A) Long-term assets only.
- B) Current assets only.
- C) Current assets and current liabilities only.
- D) Current and long-term assets only.
- E) Current assets, long-term assets and current liabilities only.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

147) Which of the following is NOT an agency cost? 147) _____

- A) Protecting management jobs which could effectively be eliminated.
- B) Low-interest loans to corporate executives.
- C) Paying more than the actual market value to purchase a competitor.
- D) Interest paid on long-term corporate borrowing.
- E) Flying an executive overseas without a genuine business purpose for doing so.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

- 148) Conflicts that arise between the interests of managers and stockholders are referred to as: 148) _____
- A) Stockholder conflicts.
 - B) Proxy fights.
 - C) Control problems.
 - D) Agency problems.
 - E) Management conflicts.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-16 Agency Relationships

- 149) Which of the following is a capital structure decision? 149) _____
- A) Management of net working capital.
 - B) Management of current assets and liabilities.
 - C) Cost of acquiring funds for the company.
 - D) Timing and risks of cash flows for an upcoming project.
 - E) Which projects should be accepted or rejected.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

150) Which one of the following best illustrates the agency problem?

150) _____

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

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

151) The agency problem is best defined as a conflict of interest between a firm's:

151) _____

- A) Managers and the firm's employees.
- B) Stockholders and the firm's managers.
- C) Various employees.
- D) Various managers.
- E) Stockholders and the firm's debtors.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-16 Agency Relationships

- 152) The decisions made by financial managers should all be ones which increase the: 152) _____
- A) Size of the firm.
 - B) Market value of the existing owners' equity.
 - C) Financial distress of the firm.
 - D) Marketability of the managers.
 - E) Growth rate of the firm.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

- 153) 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. 153) _____
- A) Ann is the principal and Mary is the agent.
 - B) Ann is the principal and Ted is the agent.
 - C) Ted is the principal and Ann is the agent.
 - D) Mary is the principal and Ann is the agent.
 - E) Mary is the agent while Ted and Ann together are principals.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-16 Agency Relationships

154) The triple bottom line measures:

154) _____

- A) A company's performance within its three financial statements.
- B) A company's performance against the top three competitors in the market.
- C) A company's performance within the primary, secondary and tertiary markets.
- D) A company's performance of its revenues, gross profit and net income against its annual strategic plan.
- E) A company's economic, social and environmental performance.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

155) The primary market is defined as the market:

155) _____

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 156) A general partnership is best defined as a business owned by: 156) _____
- A) Two or more individuals, each of whom has limited liability for the firm's debts.
 - B) Multiple individuals, 80 percent of whom enjoy limited liability.
 - C) One or more individuals who are each totally responsible for the debts of the entity.
 - D) Two or more individuals, only one of whom has unlimited liability for the firm's debts.
 - E) A single individual who desires limited liability for the firm's debts.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 157) The Treasurer: 157) _____
- A) Must keep current on tax laws since he/she is responsible for managing the taxes for a firm.
 - B) Reports directly to the Chief Executive Officer of a corporation.
 - C) Must file quarterly financial statements in a timely manner.
 - D) Is responsible for overseeing the data processing functions within a firm.
 - E) Has the responsibility for managing the cash for an organization.

Answer: E

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

158) Which of the following is NOT a Canadian financial institution?

158) _____

- A) Mutual funds.
- B) Investment dealers.
- C) Chartered banks.
- D) Trust companies.
- E) Provincial governments.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-24 Financial Institutions

159) Which of the following statements concerning NASDAQ is incorrect?

159) _____

- A) Most smaller firms are listed on NASDAQ rather than on the NYSE.
- B) NASDAQ stands for National Association of Securities Dealers Automated Quotations system.
- C) NASDAQ is an OTC market.
- D) NASDAQ is an auction market.
- E) NASDAQ is an electronic market.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 160) Which one of the following best describes the primary advantage of being a limited partner rather than a general partner? 160) _____
- A) Greater management responsibility.
 - B) No potential financial loss.
 - C) Ability to manage the day-to-day affairs of the business.
 - D) Liability for firm debts limited to the capital invested.
 - E) Entitlement to a larger portion of the partnership's income.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

- 161) Which one of the following means of management compensation is designed to help eliminate the agency problem? 161) _____
- A) Providing annual raises.
 - B) Providing a corporate jet.
 - C) Providing cost of living adjustments.
 - D) Offering stock options.
 - E) Increasing health care benefits.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals

- 162) On a typical day in Canada, the largest dollar volume of shares are traded _____. 162) _____
- A) On the Venture Exchange.
 - B) On the NYSE.
 - C) Over the counter.
 - D) On the TSX.
 - E) In primary markets.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 163) To avoid the agency problem, managers should take actions: 163) _____
- A) Only if they increase the market share of the firm.
 - B) Which adds value to the firm.
 - C) Which add to the size of the firm's workforce.
 - D) Only after the president has approved them.
 - E) Only if management jobs will not be jeopardized.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

- 164) When considering a capital budgeting project the financial manager should consider: 164) _____
- A) Only the size of the project.
 - B) Only the risk of the project cash flows.
 - C) The size, timing, and risk of the project cash flows.
 - D) Only the size and timing of the project cash flows.
 - E) Only the timing of the project cash flows.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

165) Luis has just decided that his firm should obtain \$10 million in bank financing from the Atlantic Bank and Trust and should issue \$25 million in new equity shares. Luis has just made a(n) _____ decision.

165) _____

- A) Capital structure
- B) Working capital
- C) Marketing
- D) Operational
- E) Capital budgeting

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

166) Which of the following is incorrect regarding employee stock options?

166) _____

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

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

167) Which of the following is a true statement concerning a general partnership?

167) _____

- A) Partnerships have unlimited lives similar to corporations.
- B) Partners generally do not manage the partnership.
- C) Partners are not responsible for the debts of the partnership.
- D) Partnerships are taxed at the corporate level.
- E) The income of a partnership is taxed at the partners' income tax rate.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-07 Partnership

168) The rules by which corporations govern themselves are called:

168) _____

- A) Indemnity provisions.
- B) Articles of incorporation.
- C) Indenture provisions.
- D) Bylaws.
- E) Partnership agreements.

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

169) A business owned by a single individual is called a(n):

169) _____

- A) Open structure.
- B) Partnership.
- C) Closed receivership.
- D) Corporation.
- E) Sole proprietorship.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-06 Sole Proprietorship

170) A business formed by two or more individuals or entities is called a(n):

170) _____

- A) Partnership.
- B) Closed receivership.
- C) Corporation.
- D) Open structure.
- E) Sole proprietorship.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-07 Partnership

171) A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):

171) _____

- A) Sole proprietorship.
- B) Corporation.
- C) Open structure.
- D) Partnership.
- E) Closed receivership.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

172) Which one of the following statements is correct?

172) _____

- A) All types of business formations have limited lives.
- B) Both partnerships and corporations have bylaws.
- C) Partnerships are the most complicated type of business to form.
- D) Both sole proprietorships and partnerships are taxed in a similar fashion.
- E) Both partnerships and corporations incur double taxation.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

173) Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for: 173) _____

- A) Overseeing accounts payable.
- B) Managing long-term debt.
- C) Controlling labour costs.
- D) Pricing manufactured goods.
- E) Allocating manufacturing overhead.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 174) A(n) _____ is a sale of securities which typically does not require registration with the OSC. 174) _____
- A) Secondary market transaction.
 - B) Private placement.
 - C) Primary market transaction.
 - D) Initial public offering.
 - E) Over-the-counter transaction.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 175) The original sale of securities by governments and corporations to the general public occurs in the: 175) _____
- A) Liquidation market.
 - B) Primary market.
 - C) Secondary market.
 - D) Proprietary market.
 - E) Private placement market.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

176) "Capital budgeting" is defined as the:

176) _____

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

Answer: D

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

177) The controller can be defined as the person who is generally responsible for overseeing the _____ of a firm.

177) _____

- A) Production functions.
- B) Capital expenditures.
- C) Cash balances.
- D) Financial planning.
- E) Accounting functions.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-03 The Financial Manager

- 178) The primary purpose of an auction market is to: 178) _____
- A) Handle private placements of shares of stock.
 - B) Match buyers with sellers.
 - C) Provide a market place for dealers.
 - D) Provide electronic trading for dealers.
 - E) Offer new shares of stock to the general public.

Answer: B

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 179) What are the two types of primary market transactions that corporations engage in? 179) _____
- A) Dutch auctions and orderly offerings.
 - B) Debt and equity placements.
 - C) Staggered and orderly offerings.
 - D) Primary and secondary placements.
 - E) Public offerings and private placements.

Answer: E

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 180) Which of the following is disadvantage of a sole proprietorship? 180) _____
- A) Quick decision making.
 - B) Less reliance on partners.
 - C) Unlimited liability.
 - D) Can be created through a simple business license.
 - E) The owner receiving all the after-tax profit.

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 181) Managers who place the interest of the shareholders first, will tend to: 181) _____
- A) Realize minimal value from the stock options they are granted.
 - B) Be in greater demand and receive higher compensation.
 - C) Decline all offers to buy the firm.
 - D) Be replaced on a routine basis.
 - E) Reward employees for unethical behaviour if that behaviour increases the firm's net income.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

- 182) Which of the following is a type of agency cost? 182) _____
- A) The cost of an audit of the firm's financial statements.
 - B) The costs of financing the firm.
 - C) The cost of a corporate jet needed to keep tabs on foreign operations.
 - D) Salaries paid to the firm's managers.
 - E) The cost of buying insurance on the firm's assets.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals

183) Stocks that trade on an exchange are referred to as:

183) _____

- A) Privately held stocks.
- B) Primary stocks.
- C) Optioned stocks.
- D) SEC stocks.
- E) Listed stocks.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

184) When one shareholder sells stock directly to another, the transaction is said to occur in the:

184) _____

- A) Primary market.
- B) Secondary market.
- C) Dealer market.
- D) OTC market.
- E) TSX market.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

185) The articles of incorporation:

185) _____

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

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

186) The bylaws:

186) _____

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

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

187) The secondary market is the market wherein:

187) _____

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

188) Which of the following questions is NOT the responsibility of the financial manager?

188) _____

- A) Should the firm borrow more money?
- B) How long should customers be given to pay for their credit purchases?
- C) What product should the firm produce?
- D) How long will it take to produce a product?
- E) Should the firm build a new factory?

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions; 01-03 The Financial Manager

189) The division of profits and losses between the members of a partnership is formalized in the: 189) _____

- A) Indenture contract.
- B) Partnership agreement.
- C) Statement of purpose.
- D) Group charter.
- E) Indemnity clause.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

190) The division of profits and losses among the members of a partnership is formalized in the: 190) _____

- A) Indemnity clause.
- B) Statement of purpose.
- C) Indenture contract.
- D) Group charter.
- E) Partnership agreement.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-07 Partnership

191) Which of the following is a disadvantage of the corporate form of ownership?

191) _____

- A) Taxation.
- B) Limited liability.
- C) Ease of transfer of ownership.
- D) Ability to raise capital.
- E) The life of the corporation.

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-08 Corporation

192) A partnership:

192) _____

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

Answer: A

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-07 Partnership

193) The best definition of "corporate governance" is:

193) _____

- A) The actions that are deemed as socially responsible.
- B) The possibility of conflicts between shareholders and management in a large corporation.
- C) The mechanisms and processes by which corporations are directed and controlled.
- D) The process of planning and managing a firm's long-term investments.
- E) The manner in which shareholders agree on corporate capital structure.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

194) The possibility of conflict of interest between the stockholders and management of the firm is called:

194) _____

- A) Legal liability.
- B) Corporate breakdown.
- C) The agency problem.
- D) The shareholders' conundrum.
- E) Corporate activism.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-16 Agency Relationships

195) Bylaws are:

195) _____

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

Answer: A

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

196) Which of the following is NOT a capital budgeting decision?

196) _____

- A) The amount of debt versus the amount of equity which should be obtained.
- B) The timing of all cash inflows and outflows.
- C) The currency and exchange rates of cash inflows and outflows.
- D) The amount of cash flows which will be required or obtained.
- E) The risk associated with the expected cash inflows.

Answer: A

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

197) Stockholders elect:

197) _____

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

198) The ultimate responsibility for a corporation rests with:

198) _____

- A) The Board of Directors.
- B) The Chairman of the Board.
- C) The stakeholders.
- D) The stockholders.
- E) The Chief Operations Officer.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

199) Which one of the following statements is correct concerning the organizational structure of a corporation? 199) _____

- A) The treasurer reports to the chief executive officer.
- B) The chief operations officer reports to the vice president of production.
- C) The vice president of finance reports to the chairman of the board.
- D) The controller reports to the president.
- E) The chief executive officer reports to the board of directors.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

200) Which one of the following correctly defines the chain of command in a typical corporate organizational structure? 200) _____

- A) The vice president of finance reports to the chairman of the board.
- B) The treasurer reports to the chief executive officer.
- C) The controller reports to the president.
- D) The chief executive officer reports to the board of directors.
- E) The chief operations officer reports to the vice president of production.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-03 The Financial Manager

201) Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?

201) _____

- A) The Corporate Controller.
- B) The Corporate Treasurer.
- C) The Chairman of the Board.
- D) The Vice President of Production.
- E) The Board of Directors.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

202) Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?

202) _____

- A) The owners of the corporation have unlimited liability for the firm's debts.
- B) It is more difficult to transfer ownership in a corporation.
- C) It is the simplest to start.
- D) Dividends received by the corporation's shareholders are tax-exempt.
- E) The corporation has an unlimited life.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation; 01-06 Sole Proprietorship

203) Which of the following is a true statement concerning corporations?

203) _____

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

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

204) Double taxation refers to which of the following scenarios?

204) _____

- A) The corporation pays taxes on earnings, and creditors pay taxes on interest received.
- B) The corporation pays taxes on its earnings, and shareholders pay taxes on dividends.
- C) The corporation pays taxes on revenues and earnings.
- D) Both bondholders and shareholders must pay taxes.
- E) The corporation pays taxes on revenues and expenses.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

205) Which of the following is NOT a capital budgeting question?

205) _____

- A) What type of business a firm wants to operate.
- B) The percentage return obtained by putting long-term assets to use.
- C) Credit policy to provide.
- D) The choice of which long-term assets to purchase.
- E) The dollar obtained by putting long-term assets to use.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

206) Which one of the following statements concerning stock exchanges is correct?

206) _____

- A) The TSX is primarily a dealer market.
- B) The exchange with the strictest listing requirements is NASDAQ.
- C) The NASDAQ has more listed stocks than NYSE.
- D) Some large companies are listed on NASDAQ.
- E) Most debt securities are traded on the TSX.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

207) Trace the passage of cash from the financial markets to the firm and from the firm back to the financial markets. 207) _____

- A) 1. Cash flows to the firm from the financial market. 2. The firm invests the cash in current and fixed assets. 3. These assets generate cash. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
- B) 1. The firm invests the cash in current and fixed assets. 2. These assets generate cash. 3. The rest goes back to the financial markets as cash paid to creditors and shareholders. 4. Cash flows to the firm from the financial market. 5. Corporate taxes are paid. 6. Cash flow is reinvested in the firm.
- C) 1. The firm invests the cash in current and fixed assets. 2. Cash flows to the firm from the financial market. 3. These assets generate cash. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
- D) 1. The firm invests the cash in current and fixed assets. 2. Corporate taxes are paid. 3. These assets generate cash. 4. Cash flows to the firm from the financial market. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.
- E) 1. The firm invests the cash in current and fixed assets. 2. These assets generate cash. 3. Cash flows to the firm from the financial market. 4. Corporate taxes are paid. 5. Cash flow is reinvested in the firm. 6. The rest goes back to the financial markets as cash paid to creditors and shareholders.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-21 Cash Flows to and from the Firm

208) Which of the following is NOT a general criterion that must be met in order for a firm to be listed on the TSX? 208) _____

- A) The firm must have a minimum amount of assets.
- B) The firm must have a minimum number of directors.
- C) The firm must have a market value of at least \$4 million.
- D) The firm must have a minimum number of shares outstanding.
- E) The firm must have a minimum number of shareholders owning at least 300 shares.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

209) The total market value of the firm's equity is determined by _____. 209) _____

- A) The firm's financial manager.
- B) The firm's stockholders.
- C) The firm's stakeholders.
- D) Regulatory authorities.
- E) The corporate treasurer.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

210) The secondary market is:

210) _____

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

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

211) The term "capital structure" describes:

211) _____

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

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

212) Capital structure refers to:

212) _____

- A) The accounts receivable policy.
- B) The management of Long-term investments.
- C) The mixture of debt and equity.
- D) The amount of cash on hand.
- E) The amount of inventory held.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

213) Working capital management refers to:

213) _____

- A) The types of Long-term investments made.
- B) The mixture of debt and equity.
- C) The types of stock issued.
- D) The amount of Long-term debt.
- E) The levels of cash and inventory held.

Answer: E

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 214) Which of the following statements concerning auction markets is false? 214) _____
- A) A market where buyers specify the highest price they are willing to pay and sellers indicate the lowest price they are willing to accept.
 - B) The OTC is an auction market.
 - C) The NYSE is an auction market.
 - D) Auction markets have a physical location.
 - E) The TSX is an auction market.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 215) Which of the following statements concerning dealers is false? 215) _____
- A) Most debt securities trade in dealer markets.
 - B) Dealers usually buy and sell only for themselves.
 - C) Dealers accept the risks of owning shares of stock.
 - D) The TSX and NYSE are dealer markets.
 - E) The OTC market is a dealer market.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

216) Which one of the following statements is true concerning stock exchanges?

216) _____

- A) The OTC market is physically located in Toronto.
- B) The Tokyo Stock Exchange is not a very actively traded upon exchange.
- C) The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks.
- D) NASDAQ listed stocks trade more actively than those listed on the NYSE.
- E) The Toronto Stock Exchange is the largest exchange in the world.

Answer: C

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

217) Working capital management refers specifically to:

217) _____

- A) The daily use of a firm's fixed assets to generate revenue.
- B) The utilization of a firm's assets on a daily basis.
- C) The management of a firm's Loan accounts from financial institutions.
- D) Obtaining the necessary funds to finance a firm's long term activities.
- E) The oversight of a firm's current accounts.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-04 Financial Management Decisions

218) Which one of the following statements concerning a sole proprietorship is correct? 218) _____

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

Answer: C

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

219) Which one of the following statements concerning a sole proprietorship is correct? 219) _____

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

Answer: D

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-06 Sole Proprietorship

- 220) The best definition of "regulatory dialectic" is: 220) _____
- A) The pressures regulatory bodies exert on corporations.
 - B) The pressures financial institutions and regulatory bodies exert on each other.
 - C) The pressures government exerts on regulatory bodies.
 - D) The pressures regulatory bodies exert on investors.
 - E) The pressures financial institutions exert on corporations.

Answer: B

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-25 Trends in Financial Markets and Financial Management

- 221) Which of the following markets is considered a dealer market? 221) _____
- A) The Toronto Stock Exchange.
 - B) New York Stock Exchange.
 - C) The Ontario Securities Commission.
 - D) The real estate market.
 - E) The over-the-counter (OTC) Market.

Answer: E

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 222) The primary market includes: 222) _____
- A) The sale of stock by a shareholder in the open market.
 - B) The purchase and sale of shares of stock between two shareholders.
 - C) The sale of stock by a shareholder in an auction market.
 - D) The sale of new securities by a corporation for the first time to the general public.
 - E) The sale of stock by a shareholder in the OTC market.

Answer: D

- Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

223) Which one of the following statements is correct concerning corporations?

223) _____

- A) The majority of firms are corporations.
- B) The largest firms are usually corporations.
- C) The ability of a corporation to raise capital is quite limited.
- D) The income of a corporation is taxed as personal income of the stockholders
- E) The stockholders are usually the managers of a corporation.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

224) Which of the following does not assist in ensuring managers act in the best interest of owners?

224) _____

- A) There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.
- B) A compensation package for managers that is all cash with no ties to performance.
- C) Managers are promoted only if the firm prospers.
- D) The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management.
- E) A compensation package for managers that ties their salary to the firm's share price.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

225) Which one of the following statements is correct concerning the TSX?

225) _____

- A) The TSX is the largest dealer market for listed securities in Canada.
- B) A firm is expected to have a market value for its publicly held shares of at least \$4 million to be listed on the TSX.
- C) Any corporation desiring to be listed on the TSX can do so.
- D) The TSX is the second largest stock exchange in the world.
- E) The TSX is an over-the-counter exchange functioning as both a primary and a secondary market.

Answer: B

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

226) What strategies do hedge funds employ to earn their returns?

226) _____

- A) Their strategies may include indexing the returns of major stock exchanges in North America.
- B) Their strategies may include indexing the returns of North American mutual funds.
- C) Their strategies may include indexing the returns of stock and bond markets in North America.
- D) Their strategies include indexing the returns of risk-free returns such as North American government bonds.
- E) Their strategies may include arbitrage, high levels of leverage, and active involvement in the derivatives market.

Answer: E

- Explanation:
- A)
 - B)
 - C)
 - D)
 - E)

Page Ref:

Topic: 01-24 Financial Institutions

227) Financial managers should strive to maximize the current value per share of the existing stock because: 227) _____

- A) Doing so guarantees the company will grow in size at the maximum possible rate.
- B) Doing so increases the salaries of all the employees.
- C) They have been hired for the purpose of representing the interest of the current shareholders.
- D) The managers often receive shares of stock as part of their compensation.
- E) Doing so means the firm is growing in size faster than its competitors.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

228) The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly, 228) _____

- A) The financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives.
- B) The firm will incur some agency costs if the manager acts to maximize market share.
- C) The manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders.
- D) 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.
- E) 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.

Answer: C

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

229) Which of the following does NOT persuade managers to work in the best interest of the stockholders? 229) _____

- A) Threat of a company takeover.
- B) Purely cash compensation package.
- C) Compensation based on the value of the stock.
- D) Stock option plans.
- E) Threat of a proxy fight.

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

230) When a corporation issues additional shares of common stock to the general public, they do so: 230) _____

- A) In the primary market.
- B) Only through the private markets.
- C) Through a broker in the secondary market.
- D) Through a dealer in the secondary market.
- E) Only through the OTC market.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

- 231) What is NOT a working capital question that must be answered? 231) _____
- A) Net present value (NPV) and internal rate of return (IRR) of a long-term project
 - B) Length of credit terms to provide
 - C) To whom should credit be extended to?
 - D) Should we sell on credit?
 - E) How much cash and inventory should be kept on hand?

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

- 232) 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? 232) _____
- A) Undertake the plan that would maximize her personal wealth.
 - B) Undertake the plan that would reduce the overall riskiness of the firm.
 - C) Undertake the plan that would lead to the most stable stock price for the year.
 - D) Undertake the plan that would maximize the current stock price.
 - E) Undertake the plan that would result in the largest profits for the year.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-13 The Goal of Financial Management

- 233) When does the double taxation problem faced by corporations exist? 233) _____
- A) Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its stockholders who pay personal taxes.
 - B) Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its tax-exempt shareholders.
 - C) Whenever a corporation earns a profit and pays taxes on that profit.
 - D) Whenever stockholders are paid a dividend and are taxed on that dividend income.
 - E) Whenever a corporation earns a profit, pays taxes on that profit, and then pays interest to its bondholders.

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-08 Corporation

- 234) Which of the following is NOT considered one of the basic questions of corporate finance? 234) _____
- A) What mixture of debt and equity should the firm use to fund its operations?
 - B) At what rate of interest should a firm borrow?
 - C) What long-term investments should the firm choose?
 - D) How should the firm manage its working capital, i.e., its everyday financial activities?
 - E) Where will the firm get the long-term financing to pay for its investments?

Answer: B

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-02 What Is Corporate Finance?

235) Which one of the following questions would most likely be the responsibility of the financial manager?

235) _____

- A) How should the firm finance a new distribution center?
- B) Where should a new store be located?
- C) Which employees should work overtime?
- D) What price should be charged for a new product?
- E) Which product markets should be expanded?

Answer: A

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-04 Financial Management Decisions

236) Which of the following is considered a "primary market" transaction?

236) _____

- A) You buy shares in Apple from an online brokerage
- B) You purchase warrants issued by General Motors Corporation.
- C) You purchase call options issued by Ford Motor Company.
- D) You buy shares in the public offering of a start-up company in the computer industry.
- E) Your mother sells you the shares she purchased in your uncle's latest business venture.

Answer: D

Explanation: A)
B)
C)
D)
E)

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

237) Define the concept of a corporation, along with several advantages and disadvantages of conducting business as a corporation. 237) _____

Answer: A corporation is a business created as a distinct legal operating unit that is owned by one or more individuals or entities. Advantages include: ownership can be easily transferred; life of a corporation is not limited to lives of owners or managers; a corporation has limited liability; the ability to raise and access large sums of capital in both debt and equity markets. Disadvantages include: double taxation; lenders view the limited liability as a disadvantage and require the owners of small corporations to make personal guarantees; more complex and expensive form of organization to establish.

Explanation:

Page Ref:

Topic: 01-08 Corporation; 01-05 Forms of Business Organization

238) What items are included in the articles of incorporation? 238) _____

Answer: The articles of incorporation must contain a number of things, including the corporation's name, its intended life (which can be forever), its business purpose, and the number of shares that can be issued.

Explanation:

Page Ref:

Topic: 01-08 Corporation; 01-05 Forms of Business Organization

239) Provide several advantages of the corporate form of business ownership. 239) _____

Answer: The advantages of the corporation include: limited liability for firm debt; Ability to raise capital; Unlimited firm life.

Explanation:

Page Ref:

Topic: 01-08 Corporation; 01-05 Forms of Business Organization

240) Provide several disadvantages of a partnership. 240) _____

Answer: Disadvantages of partnership include: limited life of the firm; personal liability for firm debt; lack of ability to transfer partnership interest.

Explanation:

Page Ref:

Topic: 01-07 Partnership; 01-05 Forms of Business Organization

- 241) Provide several common characteristics between a sole proprietorship and a general partnership. 241) _____
- Answer: Common elements include: method of taxation; limited life of business entity; personal liability.
- Explanation:
- Page Ref:
- Topic: 01-07 Partnership; 01-06 Sole Proprietorship; 01-05 Forms of Business Organization
- 242) What aspects of cash flows is part of the financial manager's responsibility? 242) _____
- Answer: The financial manager is responsible for: the amount of the cash flow; timing of the cash flow; likelihood of the cash flow being received; possibility that only a portion of the expected cash flow will be received.
- Explanation:
- Page Ref:
- Topic: 01-04 Financial Management Decisions; 01-03 The Financial Manager
- 243) Elaborate on the financial management function. In particular, the inter-relationships between the CEO, COO and CFO. Expand on the CFO's responsibility from an accounting and finance perspective. 243) _____
- Answer: The financial management function is usually associated with a top officer of the firm, such as a vice president of finance or some other chief financial officer (CFO). The CFO reports to the president, who is the chief operating officer (COO) in charge of day-to-day operations. The COO reports to the chairman, who is usually chief executive officer (CEO). The CEO has overall responsibility to the board. The CFO coordinates the activities of the treasurer and the controller. The controller's office handles cost and financial accounting, tax payments, and management information systems. The treasurer's office is responsible for managing the firm's cash, its financial planning, and its capital expenditures.
- Explanation:
- Page Ref:
- Topic: 01-03 The Financial Manager; 01-01 Corporate Finance and the Financial Manager
- 244) What is a hedge fund and what strategies does it utilize? Who is it intended for? 244) _____
- Answer: Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds. These strategies may include arbitrage, high levels of leverage, and active involvement in the derivatives market.
- Explanation:
- Page Ref:
- Topic: 01-25 Trends in Financial Markets and Financial Management

245) What is the difference between third and fourth markets? 245) _____

Answer: A third market involves trading exchange-listed securities in OTC markets, while a fourth market trading involves institution-to-institution trading without using the services of brokers or dealers.

Explanation:

Page Ref:

Topic: 01-25 Trends in Financial Markets and Financial Management

246) How do chartered banks generate income? 246) _____

Answer: Chartered banks generate income from the spread between interest paid on deposits and interest earned on loans, from selling life insurance through their branch networks, and from services provided to corporate clients such as bank guarantees.

Explanation:

Page Ref:

Topic: 01-24 Financial Institutions

247) What is the main drawback of the triple bottom line measure? 247) _____

Answer: One problem with the triple bottom line is that the three separate measures cannot easily be added up. It is difficult to measure the planet and people accounts in the same terms as profits.

Explanation:

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

248) What is the triple bottom line? What does it measure? 248) _____

Answer: The triple bottom line consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time.

The triple bottom line suggests that firms should be focusing on three interdependent measures of success.

One is the traditional measure of corporate profit; the second is a measure of a firm's employees and a firm's responsibility throughout the organization.

The third pertains to how environmentally responsible a firm has been.

Explanation:

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

249) List and briefly describe the three basic questions addressed by a financial manager.

249) _____

Answer: The three areas to be addressed 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.

Explanation:

Page Ref:

Topic: 01-03 The Financial Manager; 01-01 Corporate Finance and the Financial Manager

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

250) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-05 Forms of Business Organization

251) 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?

251) _____

Answer: A significant advantage of the sole proprietorship is that it is cheap and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Finally, for a typical small business, the heart and soul of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years.

Explanation:

Page Ref:

Topic: 01-08 Corporation; 01-07 Partnership; 01-06 Sole Proprietorship

252) What should be the goal of the financial manager of a corporation? Why? 252) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-11 The Goal of Financial Management; 01-03 The Financial Manager

253) Do you think agency problems arise in sole proprietorships and/or partnerships? 253) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-15 The Agency Problem and Control of the Corporation; 01-16 Agency Relationships

254) 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? 254) _____

Answer: 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.

Answer: 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.

Explanation:

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

255) 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 shares? 255) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

256) One thing lenders sometimes require when lending money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here? 256) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

257) 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? 257) _____

Answer: 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.

Explanation:

Page Ref:

Topic: 01-08 Corporation; 01-23 Primary versus Secondary Markets

- 258) Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues. 258) _____
- Answer: Financial managers must first determine which debt-equity mix is best for the firm. Secondly, financial managers must determine the least expensive sources of financing. These decisions will affect both the risk level and the value of the firm. These decisions are significant as they establish the long-term debt obligations of the firm. Should a firm assume too much debt, it could face bankruptcy if the future cash flows cannot support the debt load.
- Explanation:
- Page Ref:
- Topic: 01-01 Corporate Finance and the Financial Manager
- 259) Explain the cash flow pattern between a firm and the financial markets. 259) _____
- Answer: 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.
- Explanation:
- Page Ref:
- Topic: 01-01 Corporate Finance and the Financial Manager
- 260) Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal. 260) _____
- Answer: The goal of financial management is to increase the value of the existing owners' equity. Stock options are designed to reward managers when the value of the stock rises.
- Explanation:
- Page Ref:
- Topic: 01-11 The Goal of Financial Management
- 261) Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type. 261) _____
- Answer: The organizations include a corporation and a limited partnership. Firms which require large sums of external financing will commonly choose the corporate form. Real estate ventures often involve limited partnerships.
- Explanation:
- Page Ref:
- Topic: 01-08 Corporation; 01-07 Partnership

262) Explain how ethics can affect the value of a public corporation.

262) _____

Answer: Student answers will vary but should explain that proper ethical behaviour enhances the market perception of a firm, increases customer satisfaction, lowers agency costs, and in general, increases the market value of the firm, which is the goal of financial management.

Explanation:

Page Ref:

Topic: 01-15 The Agency Problem and Control of the Corporation; 01-16 Agency Relationships

Answer Key

Testname: UNTITLED1

- 1) TRUE
Page Ref:
Topic: 01-04 Financial Management Decisions
- 2) TRUE
Page Ref:
Topic: 01-04 Financial Management Decisions
- 3) TRUE
Page Ref:
Topic: 01-04 Financial Management Decisions
- 4) TRUE
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Topic: 01-04 Financial Management Decisions
- 5) TRUE
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Topic: 01-04 Financial Management Decisions
- 6) TRUE
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Topic: 01-04 Financial Management Decisions
- 7) FALSE
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Topic: 01-04 Financial Management Decisions
- 8) FALSE
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- 9) FALSE
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- 10) FALSE
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- 11) TRUE
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- 12) FALSE
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Topic: 01-04 Financial Management Decisions
- 13) FALSE
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Topic: 01-04 Financial Management Decisions
- 14) TRUE
Page Ref:
Topic: 01-04 Financial Management Decisions
- 15) TRUE
Page Ref:
Topic: 01-08 Corporation; 01-07 Partnership

Answer Key

Testname: UNTITLED1

16) TRUE

Page Ref:

Topic: 01-07 Partnership

17) TRUE

Page Ref:

Topic: 01-07 Partnership

18) FALSE

Page Ref:

Topic: 01-13 The Goal of Financial Management

19) FALSE

Page Ref:

Topic: 01-13 The Goal of Financial Management

20) FALSE

Page Ref:

Topic: 01-11 The Goal of Financial Management

21) FALSE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

22) TRUE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

23) FALSE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

24) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

25) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

26) FALSE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

27) FALSE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?; 01-15 The Agency Problem and Control of the Corporation

28) FALSE

Page Ref:

Topic: 01-17 Management Goals

29) FALSE

Page Ref:

Topic: 01-17 Management Goals

30) TRUE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

Answer Key

Testname: UNTITLED1

31) TRUE

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

32) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

33) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

34) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

35) FALSE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

36) TRUE

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

37) A

Page Ref:

Topic: 01-06 Sole Proprietorship

38) D

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

39) B

Page Ref:

Topic: 01-18 Do Managers Act in the Shareholders Interests?

40) D

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Topic: 01-07 Partnership

41) B

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42) D

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Topic: 01-16 Agency Relationships

43) E

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Topic: 01-06 Sole Proprietorship

44) B

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Topic: 01-23 Primary versus Secondary Markets

45) D

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Topic: 01-06 Sole Proprietorship

Answer Key

Testname: UNTITLED1

- 46) C
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- 47) B
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Topic: 01-04 Financial Management Decisions
- 48) A
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- 49) C
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- 50) B
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- 51) A
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- 56) D
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- 57) A
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- 59) D
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- 60) C
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Topic: 01-08 Corporation

Answer Key

Testname: UNTITLED1

61) E

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Topic: 01-23 Primary versus Secondary Markets

62) E

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Topic: 01-17 Management Goals

63) E

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

64) E

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

65) B

Page Ref:

Topic: 01-04 Financial Management Decisions

66) A

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

67) A

Page Ref:

Topic: 01-08 Corporation

68) A

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69) C

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Topic: 01-13 The Goal of Financial Management

70) B

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Topic: 01-13 The Goal of Financial Management

71) C

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Topic: 01-23 Primary versus Secondary Markets; 01-22 Money versus Capital Markets

72) E

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Topic: 01-04 Financial Management Decisions

73) E

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

74) D

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Topic: 01-23 Primary versus Secondary Markets; 01-22 Money versus Capital Markets

75) C

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Answer Key

Testname: UNTITLED1

- 76) E
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- 77) E
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Topic: 01-04 Financial Management Decisions
- 78) A
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Topic: 01-04 Financial Management Decisions
- 79) A
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- 80) B
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Topic: 01-04 Financial Management Decisions
- 81) B
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- 82) D
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- 86) A
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- 89) A
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- 90) D
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Topic: 01-03 The Financial Manager

Answer Key

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91) A

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92) C

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93) D

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Topic: 01-08 Corporation

94) E

Page Ref:

Topic: 01-04 Financial Management Decisions

95) D

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Topic: 01-25 Trends in Financial Markets and Financial Management

96) A

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Topic: 01-13 The Goal of Financial Management

97) B

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Topic: 01-13 The Goal of Financial Management

98) A

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99) C

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100) D

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Topic: 01-23 Primary versus Secondary Markets

101) D

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

102) D

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Topic: 01-23 Primary versus Secondary Markets

103) E

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104) C

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105) C

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

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106) C

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107) D

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108) B

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109) D

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110) B

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Topic: 01-21 Cash Flows to and from the Firm

111) C

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Topic: 01-07 Partnership

112) C

Page Ref:

Topic: 01-08 Corporation

113) E

Page Ref:

Topic: 01-07 Partnership

114) A

Page Ref:

Topic: 01-06 Sole Proprietorship

115) E

Page Ref:

Topic: 01-13 The Goal of Financial Management

116) B

Page Ref:

Topic: 01-04 Financial Management Decisions

117) A

Page Ref:

Topic: 01-04 Financial Management Decisions

118) A

Page Ref:

Topic: 01-04 Financial Management Decisions

119) A

Page Ref:

Topic: 01-07 Partnership

120) C

Page Ref:

Topic: 01-03 The Financial Manager

Answer Key

Testname: UNTITLED1

121) A

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122) C

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123) B

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124) A

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125) E

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126) E

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127) B

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128) D

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Topic: 01-07 Partnership

129) B

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Topic: 01-24 Financial Institutions

130) C

Page Ref:

Topic: 01-07 Partnership

131) B

Page Ref:

Topic: 01-07 Partnership

132) C

Page Ref:

Topic: 01-06 Sole Proprietorship

133) B

Page Ref:

Topic: 01-24 Financial Institutions

134) E

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Topic: 01-23 Primary versus Secondary Markets

135) D

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Topic: 01-04 Financial Management Decisions

Answer Key

Testname: UNTITLED1

136) B

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Topic: 01-13 The Goal of Financial Management

137) E

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

138) C

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139) D

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Topic: 01-06 Sole Proprietorship

140) A

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141) B

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Topic: 01-08 Corporation

142) D

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Topic: 01-08 Corporation

143) C

Page Ref:

Topic: 01-08 Corporation

144) C

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Topic: 01-16 Agency Relationships

145) C

Page Ref:

Topic: 01-08 Corporation

146) C

Page Ref:

Topic: 01-04 Financial Management Decisions

147) D

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Topic: 01-17 Management Goals; 01-16 Agency Relationships

148) D

Page Ref:

Topic: 01-16 Agency Relationships

149) C

Page Ref:

Topic: 01-04 Financial Management Decisions

150) C

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

Answer Key

Testname: UNTITLED1

151) B

Page Ref:

Topic: 01-16 Agency Relationships

152) B

Page Ref:

Topic: 01-13 The Goal of Financial Management

153) A

Page Ref:

Topic: 01-16 Agency Relationships

154) E

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Topic: 01-19 Corporate Social Responsibility and Ethical Investing

155) E

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Topic: 01-23 Primary versus Secondary Markets

156) C

Page Ref:

Topic: 01-07 Partnership

157) E

Page Ref:

Topic: 01-03 The Financial Manager

158) E

Page Ref:

Topic: 01-24 Financial Institutions

159) D

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

160) D

Page Ref:

Topic: 01-07 Partnership

161) D

Page Ref:

Topic: 01-17 Management Goals

162) D

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

163) B

Page Ref:

Topic: 01-17 Management Goals; 01-16 Agency Relationships

164) C

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Topic: 01-04 Financial Management Decisions

165) A

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Topic: 01-04 Financial Management Decisions

Answer Key

Testname: UNTITLED1

166) A

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

167) E

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168) D

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169) E

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170) A

Page Ref:

Topic: 01-07 Partnership

171) B

Page Ref:

Topic: 01-08 Corporation

172) D

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Topic: 01-07 Partnership

173) A

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Topic: 01-04 Financial Management Decisions

174) B

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Topic: 01-23 Primary versus Secondary Markets

175) B

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Topic: 01-23 Primary versus Secondary Markets

176) D

Page Ref:

Topic: 01-04 Financial Management Decisions

177) E

Page Ref:

Topic: 01-03 The Financial Manager

178) B

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

179) E

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Topic: 01-23 Primary versus Secondary Markets

180) C

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Topic: 01-06 Sole Proprietorship

Answer Key

Testname: UNTITLED1

181) B

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

182) A

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183) E

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184) B

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185) C

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Topic: 01-08 Corporation

186) B

Page Ref:

Topic: 01-08 Corporation

187) C

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Topic: 01-23 Primary versus Secondary Markets

188) C

Page Ref:

Topic: 01-04 Financial Management Decisions; 01-03 The Financial Manager

189) B

Page Ref:

Topic: 01-07 Partnership

190) E

Page Ref:

Topic: 01-07 Partnership

191) A

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Topic: 01-08 Corporation

192) A

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Topic: 01-07 Partnership

193) C

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

194) C

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Topic: 01-16 Agency Relationships

195) A

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Topic: 01-08 Corporation

Answer Key

Testname: UNTITLED1

196) A

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Topic: 01-04 Financial Management Decisions

197) E

Page Ref:

Topic: 01-08 Corporation

198) D

Page Ref:

Topic: 01-03 The Financial Manager

199) E

Page Ref:

Topic: 01-03 The Financial Manager

200) D

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Topic: 01-03 The Financial Manager

201) A

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Topic: 01-04 Financial Management Decisions

202) E

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Topic: 01-08 Corporation; 01-06 Sole Proprietorship

203) E

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Topic: 01-08 Corporation

204) B

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Topic: 01-08 Corporation

205) C

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Topic: 01-23 Primary versus Secondary Markets

207) A

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208) B

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Topic: 01-23 Primary versus Secondary Markets

209) B

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Topic: 01-23 Primary versus Secondary Markets

210) C

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Topic: 01-23 Primary versus Secondary Markets

Answer Key

Testname: UNTITLED1

211) B

Page Ref:

Topic: 01-04 Financial Management Decisions

212) C

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Topic: 01-04 Financial Management Decisions

213) E

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Topic: 01-04 Financial Management Decisions

214) B

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

215) D

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Topic: 01-23 Primary versus Secondary Markets

216) C

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Topic: 01-23 Primary versus Secondary Markets

217) E

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Topic: 01-04 Financial Management Decisions

218) C

Page Ref:

Topic: 01-06 Sole Proprietorship

219) D

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Topic: 01-06 Sole Proprietorship

220) B

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Topic: 01-25 Trends in Financial Markets and Financial Management

221) E

Page Ref:

Topic: 01-23 Primary versus Secondary Markets

222) D

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Topic: 01-23 Primary versus Secondary Markets

223) B

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Topic: 01-08 Corporation

224) B

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Topic: 01-18 Do Managers Act in the Shareholders Interests?

225) B

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Topic: 01-23 Primary versus Secondary Markets

Answer Key

Testname: UNTITLED1

226) E

Page Ref:

Topic: 01-24 Financial Institutions

227) C

Page Ref:

Topic: 01-13 The Goal of Financial Management

228) C

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Topic: 01-17 Management Goals; 01-16 Agency Relationships

229) B

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232) D

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233) A

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234) B

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Topic: 01-02 What Is Corporate Finance?

235) A

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Topic: 01-04 Financial Management Decisions

236) D

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Topic: 01-23 Primary versus Secondary Markets

237) A corporation is a business created as a distinct legal operating unit that is owned by one or more individuals or entities. Advantages include: ownership can be easily transferred; life of a corporation is not limited to lives of owners or managers; a corporation has limited liability; the ability to raise and access large sums of capital in both debt and equity markets. Disadvantages include: double taxation; lenders view the limited liability as a disadvantage and require the owners of small corporations to make personal guarantees; more complex and expensive form of organization to establish.

Page Ref:

Topic: 01-08 Corporation; 01-05 Forms of Business Organization

238) The articles of incorporation must contain a number of things, including the corporation's name, its intended life (which can be forever), its business purpose, and the number of shares that can be issued.

Page Ref:

Topic: 01-08 Corporation; 01-05 Forms of Business Organization

Answer Key

Testname: UNTITLED1

- 239) The advantages of the corporation include: limited liability for firm debt; Ability to raise capital; Unlimited firm life.
Page Ref:
Topic: 01-08 Corporation; 01-05 Forms of Business Organization
- 240) Disadvantages of partnership include: limited life of the firm; personal liability for firm debt; lack of ability to transfer partnership interest.
Page Ref:
Topic: 01-07 Partnership; 01-05 Forms of Business Organization
- 241) Common elements include: method of taxation; limited life of business entity; personal liability.
Page Ref:
Topic: 01-07 Partnership; 01-06 Sole Proprietorship; 01-05 Forms of Business Organization
- 242) The financial manager is responsible for: the amount of the cash flow; timing of the cash flow; likelihood of the cash flow being received; possibility that only a portion of the expected cash flow will be received.
Page Ref:
Topic: 01-04 Financial Management Decisions; 01-03 The Financial Manager
- 243) The financial management function is usually associated with a top officer of the firm, such as a vice president of finance or some other chief financial officer (CFO). The CFO reports to the president, who is the chief operating officer (COO) in charge of day-to-day operations. The COO reports to the chairman, who is usually chief executive officer (CEO). The CEO has overall responsibility to the board. The CFO coordinates the activities of the treasurer and the controller. The controller's office handles cost and financial accounting, tax payments, and management information systems. The treasurer's office is responsible for managing the firm's cash, its financial planning, and its capital expenditures.
Page Ref:
Topic: 01-03 The Financial Manager; 01-01 Corporate Finance and the Financial Manager
- 244) Hedge funds are largely unregulated and privately managed investment funds catering to sophisticated investors, which look to earn high returns using aggressive financial strategies prohibited by mutual funds. These strategies may include arbitrage, high levels of leverage, and active involvement in the derivatives market.
Page Ref:
Topic: 01-25 Trends in Financial Markets and Financial Management
- 245) A third market involves trading exchange-listed securities in OTC markets, while a fourth market trading involves institution-to-institution trading without using the services of brokers or dealers.
Page Ref:
Topic: 01-25 Trends in Financial Markets and Financial Management
- 246) Chartered banks generate income from the spread between interest paid on deposits and interest earned on loans, from selling life insurance through their branch networks, and from services provided to corporate clients such as bank guarantees.
Page Ref:
Topic: 01-24 Financial Institutions
- 247) One problem with the triple bottom line is that the three separate measures cannot easily be added up. It is difficult to measure the planet and people accounts in the same terms as profits.
Page Ref:
Topic: 01-19 Corporate Social Responsibility and Ethical Investing

248) The triple bottom line consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time.

The triple bottom line suggests that firms should be focusing on three interdependent measures of success.

One is the traditional measure of corporate profit; the second is a measure of a firm's employees and a firm's responsibility throughout the organization. The third pertains to how environmentally responsible a firm has been.

Page Ref:

Topic: 01-19 Corporate Social Responsibility and Ethical Investing

249) The three areas to be addressed 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.

Page Ref:

Topic: 01-03 The Financial Manager; 01-01 Corporate Finance and the Financial Manager

250) 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.

Page Ref:

Topic: 01-05 Forms of Business Organization

251) A significant advantage of the sole proprietorship is that it is cheap and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Finally, for a typical small business, the heart and soul of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years.

Page Ref:

Topic: 01-08 Corporation; 01-07 Partnership; 01-06 Sole Proprietorship

252) 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.

Page Ref:

Topic: 01-11 The Goal of Financial Management; 01-03 The Financial Manager

253) 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.

Page Ref:

Topic: 01-15 The Agency Problem and Control of the Corporation; 01-16 Agency Relationships

254) 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.

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

255) 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.

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

256) 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.

Page Ref:

Topic: 01-20 Financial Markets and the Corporation

257) 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.

Page Ref:

Topic: 01-08 Corporation; 01-23 Primary versus Secondary Markets

258) Financial managers must first determine which debt-equity mix is best for the firm. Secondly, financial managers must determine the least expensive sources of financing. These decisions will affect both the risk level and the value of the firm. These decisions are significant as they establish the long-term debt obligations of the firm. Should a firm assume too much debt, it could face bankruptcy if the future cash flows cannot support the debt load.

Page Ref:

Topic: 01-01 Corporate Finance and the Financial Manager

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

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Topic: 01-01 Corporate Finance and the Financial Manager

Answer Key

Testname: UNTITLED1

260) The goal of financial management is to increase the value of the existing owners' equity. Stock options are designed to reward managers when the value of the stock rises.

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Topic: 01-11 The Goal of Financial Management

261) The organizations include a corporation and a limited partnership. Firms which require large sums of external financing will commonly choose the corporate form. Real estate ventures often involve limited partnerships.

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Topic: 01-08 Corporation; 01-07 Partnership

262) Student answers will vary but should explain that proper ethical behaviour enhances the market perception of a firm, increases customer satisfaction, lowers agency costs, and in general, increases the market value of the firm, which is the goal of financial management.

Page Ref:

Topic: 01-15 The Agency Problem and Control of the Corporation; 01-16 Agency Relationships