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

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

   Answer: A
   Explanation: 
   B)
   C)
   D)

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

   Answer: D
   Explanation: 
   A)
   B)
   C)

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

   Answer: D
   Explanation: 
   A)
   B)
   C)

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

   Answer: A
   Explanation: 
   A)
   B)
   C)
   D)
5) Return and risk
   A) have no effect on share price.  B) adversely affect share price.
   C) have the same effect on share price.  D) have an inverse effect on share price.

   Answer: D
   Explanation:

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

   Answer: A
   Explanation:

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

   Answer: D
   Explanation:

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

   Answer: C
   Explanation:

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

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

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

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

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

14) The wealth of the owners of a corporation is represented by
A) earnings per share.  B) cash flow.
C) share price.  D) profits.
Answer: C
Explanation:
15) Bayside Equipment is considering buying new equipment. The existing machine produces 10,000 units a day at a cost of $2 per unit. The new machine will produce 15,000 at a cost of $1.50 a unit. Bayside sells each unit for $4. What is the marginal benefit of the new machine?
A) $7,500  
B) $20,000  
C) $22,500  
D) $38,500

Answer: D
Explanation:

16) For $200,000 you can buy a business that has steady cash flows and low risk. Given these cash flows and level of risk, you estimate the business will earn a return in excess of its opportunity cost of money. The business
A) appears economically profitable, and strong consideration should be given to buying it.
B) looks like a break-even opportunity and should be rejected.
C) appears to be a losing proposition but should be bought anyway.
D) appears to be a losing proposition and should not be bought.

Answer: A
Explanation:

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

Answer: A
Explanation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   Answer: D
   Explanation: A) B) C) D)
28) About 75 percent of all business firms are
   A) cooperatives.
   B) partnerships.
   C) sole proprietorships.
   D) corporations.
   Answer: C
   Explanation: 

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

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

31) Return and risk are the key determinants in share price. Increased return results in
   A) an unchanged share price
   B) a lower share price
   C) a higher share price
   D) an undetermined share price
   Answer: C
   Explanation: 

32) The financial manager is interested in the cash inflows and outflows of the firm, rather than the accounting data, in order to ensure
   A) the ability to acquire new assets.
   B) profitability.
   C) the ability to pay dividends.
   D) solvency.
   Answer: D
   Explanation: 
33) When entering into a partnership with a business associate, it is strongly recommended that
A) a partnership agreement be drafted outlining roles, responsibilities, and profit sharing.
B) both partners contribute an equal amount of money.
C) both partners contribute an equal amount of money and labor.
D) both partners contribute an equal amount of labor.

Answer: A
Explanation: 

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

Answer: D
Explanation: 

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

Answer: A
Explanation: 

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

Answer: A
Explanation: 

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

Answer: B
Explanation: 

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

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

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

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

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

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

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

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

42) Financial analysts study ______ while accountants prepare financial statements using ______
    accounting techniques.
   A) accrual; forecasted
   B) cash flows; forecasted
   C) accrual; cash flows
   D) cash flows; accrual

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

44) The financial manager's investment decisions determine
A) both the mix and the type of liabilities found on the firm's balance sheet.
B) both the mix and the type of assets and liabilities found on the firm's balance sheet.
C) both the mix and the type of short-term and long-term financing.
D) both the mix and the type of assets found on the firm's balance sheet.
Answer: D
Explanation: A) B) C) D)

45) Generally, the Treasurer of a large corporation reports to the
A) Chief Executive Officer.
B) General Manager.
C) Credit Manager.
D) Chief Financial Officer.
Answer: D
Explanation: A) B) C) D)

46) The officer responsible for the firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange is
A) the controller.
B) the treasurer.
C) the foreign exchange manager.
D) none of the above.
Answer: B
Explanation: A) B) C) D)

47) The accountant recognizes revenues and expenses on
A) an expense basis.
B) an accrual basis.
C) a revenue basis.
D) a cash basis.
Answer: B
Explanation: A) B) C) D)
48) A firm has just ended its calendar year making a sale in the amount of $200,000 of merchandise purchased during the year at a total cost of $150,500. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The possible problem this firm may face is
   A) inability to receive credit.  
   B) high leverage.  
   C) low profitability.  
   D) lack of cash flow.

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

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

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

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

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

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

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

A) $385,000  
B) $515,000  
C) $574,000  
D) $215,000

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

53) Canada’s industry minister recently travelled to Japan on business and took his wife and three children. The minister paid for his wife and children’s costs out of his own pocket. The minister

A) has created an agency problem by taking his family when travelling on government business.  
B) appears to have done nothing wrong in the fulfillment of his duties to the crown.  
C) has failed in his fiduciary responsibility to the public and should step down.  
D) has created an agency cost by charging the family’s costs to his personal account.

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

54) ______ is concerned with the duties of the financial manager in the business firm.

A) Financial Services  
B) Managerial Finance  
C) The Financial Manager  
D) None of the above

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

55) Financial analysis and planning involve all of the following EXCEPT

A) controlling the data processing activities.  
B) transforming data into a form that can be used to monitor the firm’s financial position.  
C) determining the additional financing needs.  
D) evaluating the need for increased or reduced productive capacity.

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

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

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

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

58) In a corporation, ethical decisions occur at all levels within the hierarchy. If you were an ethics consultant, which ethical behavior would concern you the most?
   A) a food wholesaler’s cashier rounds all weights down when calculating the cost of fruits and vegetables for customers
   B) a strawberry grower sprays a legalized chemical on its berries to help them turn red quicker
   C) a medical research company tests cancer drugs on mice
   D) an investment advisor tells his client that a company near bankruptcy has excellent growth prospects in order to get his sales commission

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

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

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

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

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

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

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

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

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

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

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

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

67) Agency costs include all of the following EXCEPT
A) opportunity costs.
B) monitoring expenditures.
C) bonding and structuring expenses.
D) cost of goods sold.
Answer: D
Explanation: A) B) C) D)
68) Which of the following risk-return statements is true?
A) an investment in a Government of Canada bond is more risky than an investment in a publicly traded company, such as Nortel Networks
B) rational investors require a lower return for exposing themselves to risk
C) in order to increase the return expected from any kind of investment, we must increase our exposure to risk
D) all of the above are true
Answer: C
Explanation: A) B) C) D)

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

70) An ethics program is expected to have ______ impact on the firm’s share price.
A) positive
B) undetermined
C) no
D) negative
Answer: A
Explanation: A) B) C) D)

71) Agency costs include all of the following EXCEPT
A) management reports to stockholders.
B) the cost of monitoring management behavior.
C) purchasing insurance against management misconduct.
D) performance incentives paid to managers.
Answer: A
Explanation: A) B) C) D)

72) The key activities of the financial manager include all of the following EXCEPT
A) financial analysis and planning.
B) making financing decisions.
C) managing financial accounting.
D) making investment decisions.
Answer: C
Explanation: A) B) C) D)
73) Benefits to incorporating a small business with one owner include all of the following EXCEPT
   A) the ability to raise capital through public offerings.
   B) the small business tax credit on income below $200,000.
   C) the ability to limit liability to the amount invested in the company.
   D) the $500,000 capital gains exemption for qualified small business shares.

Answer: A
Explanation: A) B) C)

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

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

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

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

76) ______ is responsible for the evaluation and recommendation of proposed asset investments.
   C) The Pension Fund Manager        D) The Credit Analyst

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

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

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

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

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

81) The implementation of a pro-active ethics program is expected to result in
A) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price.
B) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows.
C) a positive corporate image and increased respect, but is not expected to affect share price.
D) a positive corporate image and increased respect, but is not expected to affect cash flows.
Answer: A
Explanation:  
A)  
B)  
C)  
D)
82) A major weakness of a partnership is
A) access to capital markets.
B) low organizational costs.
C) limited liability.
D) difficulty liquidating or transferring ownership.
Answer: D
Explanation: 

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

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

85) The controller is commonly responsible for
A) financial accounting.       B) managing credit activities.
C) managing cash.            D) financial planning.
Answer: A
Explanation: 

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

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

Answer: C

Explanation: A) machinery.
B) buildings.
C) notes payable.
D) inventory.

88) The primary emphasis of the financial manager is the use of

Answer: B

Explanation: A) profit incentives.
B) cash flow.
C) accrued earnings.
D) organization charts.

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

Answer: B

Explanation: A) return will increase.
B) required rate of return will increase.
C) return will decrease.
D) required rate of return will decrease.

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

Answer: A

Explanation: A) the controller.
B) the treasurer.
C) the foreign exchange manager.
D) none of the above.

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

Answer: A

Explanation: A) bonuses based on short-term results.
B) stock options.
C) performance shares.
D) cash bonuses tied to goal achievement.
92) Hardwood Furniture Limited sold $1,225,000 worth of tables, chairs and other furniture last year. During that time period, the company collected $975,755 for those items and paid $407,844 for the materials used in producing the furniture they sold. What was Hardwood's net cash flow for last year?

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

Answer: D

Explanation:

93) The role of Board of Directors is to

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

Answer: A

Explanation:

94) Which of the following is an investing decision?

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

Answer: B

Explanation:

95) Return and risk are the key determinants in share price. Increased risk, other things remaining the same, results in

A) an undetermined share price.
B) a lower share price.
C) a higher share price.
D) an unchanged share price.

Answer: B

Explanation:

96) Managing the firm's assets includes all of the following EXCEPT

A) notes payable.
B) fixed assets.
C) inventory.
D) accounts receivable.

Answer: A

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

<table>
<thead>
<tr>
<th>Asset</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$21,000</td>
<td>$15,000</td>
<td>$ 9,000</td>
</tr>
<tr>
<td>2</td>
<td>9,000</td>
<td>15,000</td>
<td>21,000</td>
</tr>
<tr>
<td>3</td>
<td>3,000</td>
<td>18,000</td>
<td>19,000</td>
</tr>
<tr>
<td>4</td>
<td>6,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

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


Answer: A
Explanation: A)

Included in the primary activities of the financial manager is/are

A) financial analysis and planning.  B) making financing decisions.
C) making investment decisions.  D) all of the above.

Answer: D
Explanation: A)

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

<table>
<thead>
<tr>
<th>Asset</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$21,000</td>
<td>$15,000</td>
<td>$ 6,000</td>
</tr>
<tr>
<td>2</td>
<td>9,000</td>
<td>15,000</td>
<td>21,000</td>
</tr>
<tr>
<td>3</td>
<td>3,000</td>
<td>20,000</td>
<td>19,000</td>
</tr>
<tr>
<td>4</td>
<td>6,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

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


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

101) Sig Hansen runs a ski resort in British Columbia. He is considering replacing the ski lifts at the resort. His calculations suggest that if he does, the economic benefits from the upgraded ski-lift operations will total $959,000 over the next six years. The ski lifts he already has are projected to generate $444,000 in economic benefits over the next six years. The new ski lifts would require an initial cash investment of $385,000 and Sig estimates he can sell his existing ski lift equipment for $170,000. Based on these estimates, what is Sig’s marginal benefit from replacing the ski lifts?
A) $345,000  B) $574,000  C) $515,000  D) $959,000
Answer: C
Explanation: A) B) C) D)

102) Which of the following legal forms of organization is most expensive to organize?
A) limited partnerships  B) sole proprietorships
C) partnerships  D) corporations
Answer: D
Explanation: A) B) C) D)

103) The difference between the cost of funds used to finance an investment and its after-tax operating profits is called
A) economic value added.  B) earnings per share.
C) retained earnings.  D) a dividend.
Answer: A
Explanation: A) B) C) D)
104) In ________, owners have limited liability with regard to the business—they are not personally liable for other owners' malpractice.
   A) in a cooperative  B) a limited partnership
   C) s sole proprietorship  D) a partnership

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

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Asset 1</th>
<th>Asset 2</th>
<th>Asset 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$21,000</td>
<td>$9,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>2</td>
<td>15,000</td>
<td>15,000</td>
<td>21,000</td>
</tr>
<tr>
<td>3</td>
<td>9,000</td>
<td>18,000</td>
<td>17,000</td>
</tr>
<tr>
<td></td>
<td>$46,000</td>
<td>$41,000</td>
<td>$46,000</td>
</tr>
</tbody>
</table>

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

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

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

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

109) Financial service
A) provides guidelines for the efficient operation of the business.
B) handles accounting activities related to data processing.
C) involves the design and delivery of advice and financial products.
D) is concerned with the duties of the financial manager.
Answer: C
Explanation: A)  B)  C)  D)

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

111) Corporate owners receive a realizable return through
A) earnings per share and cash dividends.
B) profit and earnings per share.
C) increase in share price and earnings per share.
D) increase in share price and cash dividends.
Answer: D
Explanation: A)  B)  C)  D)

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

112) The controller is the officer responsible for the firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange.
Answer: True  False
Explanation:
113) Corporations are the most common form of business organization.  
   Answer: True  False  
   Explanation:

114) Financial services is concerned with the duties of the financial manager.  
   Answer: True  False  
   Explanation:

115) Managerial finance is concerned with the design and delivery of advice and financial products to individuals, businesses, and government.  
   Answer: True  False  
   Explanation:

116) The separation of ownership and liability make the option of incorporating a private business very appealing.  
   Answer: True  False  
   Explanation:

117) High cash flow is generally associated with a higher share price whereas higher risk tends to result in a lower share price.  
   Answer: True  False  
   Explanation:

118) The financial manager must look beyond financial statements to obtain insight into developing or existing problems since the accrual accounting data do not fully describe the circumstances of a firm.  
   Answer: True  False  
   Explanation:

119) In a limited partnership, partners' liabilities are limited to their investment in the partnership.  
   Answer: True  False  
   Explanation:

120) The treasurer is the officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.  
   Answer: True  False  
   Explanation:

121) The treasurer's focus tends to be more external, while the controller's focus is more internal.  
   Answer: True  False  
   Explanation:

122) Agency costs are the reduction in shareholders' wealth when managers act to maximize their own wealth instead of shareholder wealth.  
   Answer: True  False  
   Explanation:
123) If a manager's compensation is based on a performance measure such as earnings per share, he/she has an incentive plan.
   Answer: True  False
   Explanation:

124) Financial managers actively manage the financial affairs of many types of business--financial and non-financial, private and public, for-profit and not-for-profit.
   Answer: True  False
   Explanation:

125) Financial analysis and planning is concerned with analyzing the mix of assets and liabilities.
   Answer: True  False
   Explanation:

126) Financing decisions deal with the left-hand side of the firm’s balance sheet and involve the most appropriate mix of current and fixed assets.
   Answer: True  False
   Explanation:

127) An agency problem is the acquisition of a firm by another firm or group that is not supported by management.
   Answer: True  False
   Explanation:

128) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees’ pension fund.
   Answer: True  False
   Explanation:

129) The goal of ethics is to motivate business and market participants to adhere to both the letter and the spirit of laws and regulations in all aspects of business and professional practice.
   Answer: True  False
   Explanation:

130) Economic value added is calculated by subtracting the cost of funds used to finance an investment from its after-tax operating profits.
   Answer: True  False
   Explanation:

131) A firm’s articles of incorporation and bylaws, along with government legislation, provide shareholders with a framework on how their firm will be governed.
   Answer: True  False
   Explanation:

132) The financial manager places primary emphasis on cash flows, the inflow and outflow of cash.
   Answer: True  False
   Explanation:
133) Agents of corporate owners are themselves owners of the firm and have been elected by all the corporate owners to represent them in decision-making and management of the firm.
Answer: True  False
Explanation:

134) Using certain standardized and generally accepted accounting principles, the accountant prepares financial statements that recognize revenue at the point of sale and expenses when incurred.
Answer: True  False
Explanation:

135) Marginal analysis states that financial decisions should be made and actions taken only when added benefits exceeds added costs.
Answer: True  False
Explanation:

136) Some of Canada's largest corporations include Nortel Networks, Bombardier, and the Royal Bank.
Answer: True  False
Explanation:

137) In a limited partnership, the liability protection does not protect partners from their individual acts of malpractice.
Answer: True  False
Explanation:

138) In Canada, corporate boards seem to be drawn from a large subset of people representing the cultural differences of Canadians.
Answer: True  False
Explanation:

139) The president or chief executive officer is elected by the firm's stockholders and has ultimate authority to guide corporate affairs and make general policy.
Answer: True  False
Explanation:

140) Joe Tootoosis and Frank Inn were working partners in a partnership that failed; at failure, the partnership debt was $100,000. If Frank Inn has no assets, Joe Tootoosis could be held liable for the entire $100,000.
Answer: True  False
Explanation:

141) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase share price.
Answer: True  False
Explanation:

142) In a partnership, a partner can readily transfer his/her wealth to other partners.
Answer: True  False
Explanation:

28
143) In a limited partnership, only one partner may assume limited liability, all other partners have to have unlimited liability.
   Answer: True  False
   Explanation:

144) Return and risk are the key determinants of share price, which represents the wealth of the owners in the firm.
   Answer: True  False
   Explanation:

145) The sole proprietor has unlimited liability; only his or her total investment in the business can be taken to satisfy creditors.
   Answer: True  False
   Explanation:

146) In a partnership, owners have unlimited liability and may have to cover debts of other less financially sound partners.
   Answer: True  False
   Explanation:

147) The financial manager prepares financial statements that recognize revenue at the point of sale and expenses when incurred.
   Answer: True  False
   Explanation:

148) The wealth of corporate owners is measured by the share price of the stock.
   Answer: True  False
   Explanation:

149) The treasurer typically handles the cost and financial accounting.
   Answer: True  False
   Explanation:

150) Dividend payments change directly with changes in earnings per share.
   Answer: True  False
   Explanation:

151) The likelihood that managers may place personal goals ahead of corporate goals is called agency problem.
   Answer: True  False
   Explanation:

152) The financial analyst administers the firm’s credit policy by analyzing or managing the evaluation of credit applications, extending credit, and monitoring and collecting accounts receivable.
   Answer: True  False
   Explanation:
153) Janice Smith has recently joined the Royal Bank of Canada as a Personal Financial Planner Representative; Janice is working in the area of managerial finance.

Answer: True  False
Explanation:

154) The CEO of a large corporation takes his family on a cruise charging the cost to his business account; this is considered an agency cost.

Answer: True  False
Explanation:

155) Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses and government.

Answer: True  False
Explanation:

156) The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer.

Answer: True  False
Explanation:

157) To achieve the goal of profit maximization, for each alternative being considered, the financial manager would select the one that is expected to result in the highest monetary return.

Answer: True  False
Explanation:

158) A high eps does not necessarily translate into a high stock price.

Answer: True  False
Explanation:

159) Where risk is involved, stockholders expect to earn higher rates of return on investments of lower risk and vice versa.

Answer: True  False
Explanation:

160) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk.

Answer: True  False
Explanation:

161) The accountant evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks.

Answer: True  False
Explanation:

162) Jupitor Inc. is a non-public corporation owned by two Saskatchewan residents; Jupitor would be considered a Canadian Controlled Private Corporation for taxation purposes.

Answer: True  False
Explanation:
163) The controller typically handles the accounting activities, such as tax management, data processing, and cost and financial accounting.
Answer: True False
Explanation:

164) The Economic Value Added (EVA) is the difference between the cost of funds used to finance an investment and its after-tax operating profits.
Answer: True False
Explanation:

165) A stock exchange is a secondary financial market.
Answer: True False
Explanation:

166) A financial analyst is responsible for maintaining and controlling the firm's daily cash balances. He or she frequently manages the firm's short-term investments and coordinates short-term borrowing and banking relationships.
Answer: True False
Explanation:

167) The capital expenditures analyst/manager is responsible for the evaluation and recommendation of proposed asset investments and may be involved in the financial aspects of implementation of approved investments.
Answer: True False
Explanation:

168) The major disadvantage of the sole proprietorship and partnership is the unlimited liability of the business owners.
Answer: True False
Explanation:

169) Accrual method recognizes revenue at the point of sale and recognizes expenses when incurred.
Answer: True False
Explanation:

170) Higher risk tends to result in a higher share price since the stockholder must be compensated for the greater risk.
Answer: True False
Explanation:

171) When considering each financial decision alternative or possible action in terms of its impact on the share price of the firm's stock, financial managers should accept only those actions that are expected to increase the firm's short-term profitability.
Answer: True False
Explanation:

172) Market forces and agency costs help to prevent or minimize agency problems.
Answer: True False
Explanation:
ESSAY. Write your answer in the space provided or on a separate sheet of paper.

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

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

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

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

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

Comment on the implications of your findings.

Answer: EVA = After-tax operating profits - (funds invested \( \times \) cost of the funds)

\[ = (150 000 \times (1 - .32) - (2 000 000 \times 12\%)) \]

\[ = - 138 000 \]

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

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

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

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

Answer: Two of:

1. Sales made to customers on credit.
3. Depreciation charges for capital assets.
The introduction of a mid-sized sedan has increased sales of the luxury model by 2,000 units and decreased sales of the economy model by 1,000 units. It is expected that sales of the mid-sized sedan will be 10,000 units at $30,000 each. The sales price of the luxury model is $40,000 and the economy model is $20,000. Calculate the marginal change in revenues due to the introduction of the mid-sized sedan.

Answer: Change in revenues = 10,000 × 30,000 + 2,000 × 40,000 - 1,000 × 20,000 = $360,000
Answer Key
Testname: C1

1) A
2) D
3) D
4) A
5) D
6) A
7) D
8) C
9) A
10) B
11) C
12) D
13) B
14) C
15) D
16) A
17) A
18) A
19) A
20) A
21) B
22) B
23) B
24) C
25) D
26) D
27) D
28) C
29) B
30) B
31) C
32) D
33) A
34) D
35) A
36) A
37) B
38) A
39) A
40) D
41) B
42) D
43) B
44) D
45) D
46) B
47) B
48) D
49) D
50) A
Answer Key
Testname: C1

51) D
52) D
53) B
54) B
55) A
56) B
57) D
58) D
59) B
60) D
61) C
62) B
63) A
64) B
65) D
66) D
67) D
68) C
69) B
70) A
71) A
72) C
73) A
74) D
75) C
76) A
77) B
78) C
79) A
80) C
81) A
82) D
83) B
84) C
85) A
86) B
87) C
88) B
89) B
90) A
91) A
92) D
93) A
94) B
95) B
96) A
97) A
98) D
99) B
100) D
111) D  112) FALSE  113) FALSE  114) FALSE  115) FALSE  116) TRUE  117) TRUE  118) TRUE
119) FALSE  120) FALSE  121) TRUE  122) TRUE  123) FALSE  124) TRUE  125) FALSE  126) FALSE
127) FALSE  128) FALSE  129) TRUE  130) TRUE  131) TRUE  132) TRUE  133) FALSE  134) TRUE
135) TRUE  136) TRUE  137) TRUE  138) FALSE  139) FALSE  140) TRUE  141) TRUE  142) FALSE
143) FALSE  144) TRUE  145) FALSE  146) TRUE  147) FALSE  148) TRUE  149) FALSE  150) FALSE
173) First, shareholders elect a Board of Directors to represent their interest to senior management, and directly monitor management. The board is then responsible to ensure that the senior managers act in the owners’ best interests.

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

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

174) $EVA = \text{After-tax operating profits} - (\text{funds invested} \times \text{cost of the funds})$

$\text{After-tax operating profits} = (150,000 \times (1 - .32)) - (2,000,000 \times 12\%)$

$= - 138,000$

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

175) $OCF = 400,000 + (250,000 - 350,000) - (200,000 - 150,000) = $250,000$

176) Two of:
1. Sales made to customers on credit.
3. Depreciation charges for capital assets.
177) Change in revenues = $10,000 \times 30,000 + 2,000 \times 40,000 - 1,000 \times 20,000 = $360,000