

Exam

Name _____

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

- 1) 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. 1) _____
- 2) Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses and government. 2) _____
- 3) Financial services is concerned with the duties of the financial manager. 3) _____
- 4) 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. 4) _____
- 5) In a partnership, owners have unlimited liability and may have to cover debts of other less financially sound partners. 5) _____
- 6) In a partnership, a partner can readily transfer his/her wealth to other partners. 6) _____
- 7) The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer. 7) _____
- 8) The sole proprietor has unlimited liability; only his or her total investment in the business can be taken to satisfy creditors. 8) _____
- 9) In a limited partnership, only one partner may assume limited liability, all other partners have to have unlimited liability. 9) _____
- 10) 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. 10) _____
- 11) In a limited partnership, partners' liabilities are limited to their investment in the partnership. 11) _____
- 12) In a limited partnership, the liability protection does not protect partners from their individual acts of malpractice. 12) _____
- 13) 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. 13) _____
- 14) 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. 14) _____
- 15) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees' pension fund. 15) _____

- 16) Marginal analysis states that financial decisions should be made and actions taken only when added benefits exceeds added costs. 16) _____
- 17) The controller typically handles the accounting activities, such as tax management, data processing, and cost and financial accounting. 17) _____
- 18) The financial manager places primary emphasis on cash flows, the inflow and outflow of cash. 18) _____
- 19) Managerial finance is concerned with the design and delivery of advice and financial products to individuals, businesses, and government. 19) _____
- 20) The treasurer typically handles the cost and financial accounting. 20) _____
- 21) Accrual method recognizes revenue at the point of sale and recognizes expenses when incurred. 21) _____
- 22) The accountant evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks. 22) _____
- 23) The treasurer is the officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting. 23) _____
- 24) 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. 24) _____
- 25) High cash flow is generally associated with a higher share price whereas higher risk tends to result in a lower share price. 25) _____
- 26) The treasurer's focus tends to be more external, while the controller's focus is more internal. 26) _____
- 27) The financial manager prepares financial statements that recognize revenue at the point of sale and expenses when incurred. 27) _____
- 28) 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. 28) _____
- 29) 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. 29) _____
- 30) 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. 30) _____
- 31) Financial analysis and planning is concerned with analyzing the mix of assets and liabilities. 31) _____
- 32) 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. 32) _____

- 33) 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. 33) _____
- 34) 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. 34) _____
- 35) Dividend payments change directly with changes in earnings per share. 35) _____
- 36) The wealth of corporate owners is measured by the share price of the stock. 36) _____
- 37) The Economic Value Added (EVA) is the difference between the cost of funds used to finance an investment and its after-tax operating profits. 37) _____
- 38) Economic value added is calculated by subtracting the cost of funds used to finance an investment from its after-tax operating profits. 38) _____
- 39) Return and risk are the key determinants of share price, which represents the wealth of the owners in the firm. 39) _____
- 40) A high eps does not necessarily translate into a high stock price. 40) _____
- 41) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk. 41) _____
- 42) 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. 42) _____
- 43) Higher risk tends to result in a higher share price since the stockholder must be compensated for the greater risk. 43) _____
- 44) Where risk is involved, stockholders expect to earn higher rates of return on investments of lower risk and vice versa. 44) _____
- 45) The likelihood that managers may place personal goals ahead of corporate goals is called agency problem. 45) _____
- 46) Agency costs are the reduction in shareholders' wealth when managers act to maximize their own wealth instead of shareholder wealth. 46) _____
- 47) 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. 47) _____
- 48) An agency problem is the acquisition of a firm by another firm or group that is not supported by management. 48) _____
- 49) Market forces and agency costs help to prevent or minimize agency problems. 49) _____

- 50) A firm's articles of incorporation and bylaws, along with government legislation, provide shareholders with a framework on how their firm will be governed. 50) _____
- 51) In Canada, corporate boards seem to be drawn from a large subset of people representing the cultural differences of Canadians. 51) _____
- 52) The separation of ownership and liability make the option of incorporating a private business very appealing. 52) _____
- 53) 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. 53) _____
- 54) 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. 54) _____
- 55) Some of Canada's largest corporations include Nortel Networks, Bombardier, and the Royal Bank. 55) _____
- 56) Jupitor Inc. is a non-public corporation owned by two Saskatchewan residents; Jupitor would be considered a Canadian Controlled Private Corporation for taxation purposes. 56) _____
- 57) Joe Tootosis and Frank Inn were working partners in a partnership that failed; at failure, the partnership debt was \$100,000. If Frank Inn has no assets, Joe Tootosis could be held liable for the entire \$100,000. 57) _____
- 58) If a manager's compensation is based on a performance measure such as earnings per share, he/she has an incentive plan. 58) _____
- 59) A stock exchange is a secondary financial market. 59) _____
- 60) The major disadvantage of the sole proprietorship and partnership is the *unlimited* liability of the business owners. 60) _____
- 61) Corporations are the most common form of business organization. 61) _____

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

- 62) The part of finance concerned with the design and delivery of advice and financial products to individuals, businesses, and government is called 62) _____
 A) financial services. B) managerial finance.
 C) financial manager. D) none of the above.
- 63) Managerial finance 63) _____
 A) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.
 B) recognizes funds on an accrual basis.
 C) devotes the majority of its attention to the collection and presentation of financial data.
 D) involves the design and delivery of advice and financial products.

- 64) Finance can be defined as 64) _____
 A) the system of debits and credits.
 B) the science of the production, distribution, and consumption of wealth.
 C) the art of merchandising products and services.
 D) the art and science of managing money.
- 65) Financial service 65) _____
 A) involves the design and delivery of advice and financial products.
 B) provides guidelines for the efficient operation of the business.
 C) handles accounting activities related to data processing.
 D) is concerned with the duties of the financial manager.
- 66) Career opportunities in financial services include all of the following EXCEPT 66) _____
 A) investments. B) capital expenditures management.
 C) real estate and insurance. D) personal financial planning.
- 67) Which of the following is a career opportunity in managerial finance? 67) _____
 A) Capital Expenditures Management B) Investment
 C) Real Estate and Insurance D) Personal Financial Planning
- 68) Which of the following legal forms of organization is most expensive to organize? 68) _____
 A) corporations B) limited partnerships
 C) sole proprietorships D) partnerships
- 69) Which of the following legal forms of organization's income is NOT taxed under individual income tax rate? 69) _____
 A) corporations B) partnerships
 C) limited partnerships D) sole proprietorships
- 70) Under which of the following legal forms of organization, is ownership readily transferable? 70) _____
 A) partnerships B) corporations
 C) sole proprietorships D) limited partnerships
- 71) The true owners of the corporation is/are the 71) _____
 A) creditors. B) board of directors.
 C) chief executive officer. D) stockholders.
- 72) The _____ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies. 72) _____
 A) chief executive officer B) board of directors
 C) creditors D) stockholders
- 73) The responsibility for managing day-to-day operations and carrying out corporate policies belongs to the 73) _____
 A) stockholders. B) board of directors.
 C) creditors. D) chief executive officer.
- 74) In a corporation, the members of the board of directors are elected by the 74) _____
 A) chief executive officer. B) stockholders.
 C) creditors. D) employees.

- 75) _____ is concerned with the duties of the financial manager in the business firm. 75) _____
 A) Financial Services B) Managerial Finance
 C) The Financial Manager D) None of the above
- 76) About 75 percent of all business firms are 76) _____
 A) corporations. B) cooperatives.
 C) sole proprietorships. D) partnerships.
- 77) A major weakness of a partnership is 77) _____
 A) access to capital markets.
 B) difficulty liquidating or transferring ownership.
 C) limited liability.
 D) low organizational costs.
- 78) All of the following are key strengths of a corporation EXCEPT 78) _____
 A) readily transferable ownership. B) access to capital markets.
 C) low organization costs. D) limited liability.
- 79) Which of the following legal forms of organization is characterized by limited liability? 79) _____
 A) professional partnership B) sole proprietorship
 C) corporation D) partnership
- 80) The dominant form of organization with respect to revenues and net income is the 80) _____
 A) limited partnership. B) sole proprietorship.
 C) corporation. D) partnership.
- 81) A "legal entity" which can sue and be sued, make and be party to contracts, and acquire property in its own name is 81) _____
 A) a corporation. B) a professional partnership.
 C) a sole proprietorship. D) a partnership.
- 82) _____ is responsible for the evaluation and recommendation of proposed asset investments. 82) _____
 A) The Credit Analyst B) The Capital Expenditures Analyst
 C) The Financial Analyst D) The Pension Fund Manager
- 83) In _____, owners have limited liability with regard to the business—they are not personally liable for other owners' malpractice. 83) _____
 A) a partnership B) s sole proprietorship
 C) in a cooperative D) a limited partnership
- 84) Managerial finance 84) _____
 A) devotes the majority of its attention to the collection and presentation of financial data.
 B) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.
 C) recognizes funds on an accrual basis.
 D) involves the design and delivery of advice and financial products.
- 85) The treasurer is commonly responsible for 85) _____
 A) cost accounting. B) taxes.
 C) making capital expenditures. D) data processing.

- 86) The controller is commonly responsible for _____
 A) financial planning. B) managing credit activities.
 C) managing cash. D) financial accounting.
- 87) The accountant's primary function is _____
 A) the collection and presentation of financial data.
 B) planning cash flows.
 C) evaluating the financial statements.
 D) making decisions based on financial data.
- 88) The accountant recognizes revenues and expenses on _____
 A) an accrual basis. B) an expense basis.
 C) a revenue basis. D) a cash basis.
- 89) The financial manager recognizes revenues and expenses utilizing _____
 A) the actual inflows and outflows of cash.
 B) the accrual method.
 C) the revenue method.
 D) standardized, generally accepted, accounting principles.
- 90) The financial manager is interested in the cash inflows and outflows of the firm, rather than the accounting data, in order to ensure _____
 A) profitability. B) the ability to acquire new assets.
 C) the ability to pay dividends. D) solvency.
- 91) The accountant may be responsible for any of the following EXCEPT _____
 A) processing purchase orders and invoices.
 B) preparing the monthly income statement.
 C) ensuring accounts payable are paid on time.
 D) analyzing the mix of current to fixed assets.
- 92) Which of the following is a disadvantage of an income trust? _____
 A) income trusts never provide stable cash flows
 B) only immature companies that do not have a regular cash flow can create income trusts
 C) unitholders of income trusts have a lower claim on assets than the holders of debt securities
 D) income trusts do not offer the potential for capital appreciation
- 93) Economic theories that the financial manager must be able to utilize for efficient business operations, include _____
 A) profit-maximizing strategies. B) marginal analysis.
 C) supply-and-demand analysis. D) all of the above.
- 94) The primary economic principle used in managerial finance is _____
 A) the crowding out effect. B) supply and demand.
 C) the liquidity trap. D) marginal analysis.

- 95) 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 95) _____
- A) \$3,000 and \$10,000 respectively. B) \$7,000 and -\$3,000 respectively.
C) \$3,000 and \$7,000 respectively. D) \$3,000 and -\$7,000 respectively.
- 96) 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 96) _____
- A) \$37,500 and -\$112,500 respectively. B) \$0 and \$150,000 respectively.
C) \$37,500 and -\$150,000 respectively. D) \$150,000 and \$112,500 respectively.
- 97) The primary emphasis of the financial manager is the use of 97) _____
- A) cash flow. B) accrued earnings.
C) organization charts. D) profit incentives.
- 98) By concentrating on cash flows within the firm the financial manager should be able to 98) _____
- A) prepare tax returns. B) avoid insolvency.
C) control expenses. D) speak authoritatively to stockholders.
- 99) 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 99) _____
- A) the controller. B) the treasurer.
C) the foreign exchange manager. D) none of the above.
- 100) Marginal analysis states that financial decisions should be made and actions taken only when 100) _____
- A) benefits equal costs. B) added benefits exceed added costs.
C) added benefits are greater than zero. D) demand equals supply.
- 101) The officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting is 101) _____
- A) the foreign exchange manager. B) the treasurer.
C) the controller. D) none of the above.
- 102) 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 102) _____
- A) inability to receive credit. B) high leverage.
C) lack of cash flow. D) low profitability.
- 103) The key role of the financial manager is 103) _____
- A) decision making.
B) the presentation of financial statements.
C) the collection of financial data.
D) the preparation of data for future evaluation.

- 104) The key activities of the financial manager include all of the following EXCEPT 104) _____
 A) making investment decisions. B) financial analysis and planning.
 C) managing financial accounting. D) making financing decisions.
- 105) Included in the primary activities of the financial manager is/are 105) _____
 A) making financing decisions. B) financial analysis and planning.
 C) making investment decisions. D) all of the above.
- 106) The financial manager may be responsible for any of the following EXCEPT 106) _____
 A) analyzing budget and performance reports.
 B) monitoring of quarterly tax payments.
 C) determining whether to accept or reject a capital asset acquisition.
 D) analyzing the effects of more debt on the firm's capital structure.
- 107) Making investment decisions includes all of the following EXCEPT 107) _____
 A) notes payable. B) inventory. C) machinery. D) buildings.
- 108) Making financing decisions includes all of the following EXCEPT 108) _____
 A) deciding which individual short-term sources are best at a given point in time.
 B) analyzing quarterly budget and performance reports.
 C) deciding which individual long-term sources are best at a given point in time.
 D) determining the appropriate mix of short-term and long-term financing.
- 109) Managing the firm's assets includes all of the following EXCEPT 109) _____
 A) accounts receivable. B) notes payable.
 C) inventory. D) fixed assets.
- 110) Managing the firm's liabilities includes all of the following EXCEPT 110) _____
 A) notes payable. B) cash.
 C) accounts payable. D) accruals.
- 111) The financial manager may be responsible for any of the following EXCEPT 111) _____
 A) analyzing the effects of more debt on the firm's capital structure.
 B) determining whether to accept or reject a capital asset acquisition.
 C) keeping track of quarterly tax payments.
 D) analyzing quarterly budget and performance reports.
- 112) Financial analysis and planning involve all of the following EXCEPT 112) _____
 A) determining the additional financing needs.
 B) controlling the data processing activities.
 C) transforming data into a form that can be used to monitor the firm's financial position.
 D) evaluating the need for increased or reduced productive capacity.
- 113) The financial manager's investment decisions determine 113) _____
 A) both the mix and the type of assets found on the firm's balance sheet.
 B) both the mix and the type of short-term and long-term financing.
 C) both the mix and the type of liabilities found on the firm's balance sheet.
 D) both the mix and the type of assets and liabilities found on the firm's balance sheet.

- 114) In planning and managing the requirements of the firm, the financial manager is concerned with 114) _____
 A) the type of financing utilized, but not the mix and type of assets.
 B) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition.
 C) the acquisition of fixed assets, allowing someone else to plan the level of current assets required.
 D) the mix and type of assets, but not the type of financing utilized.
- 115) The financial manager's financing decisions determine 115) _____
 A) the most appropriate mix of short-term and long-term financing.
 B) the proportion of the firm's earnings to be paid as dividend.
 C) both the mix and the type of assets and liabilities found on the firm's balance sheet.
 D) both the mix and the type of assets found on the firm's balance sheet.
- 116) The primary goal of the financial manager is 116) _____
 A) maximizing wealth. B) minimizing risk.
 C) maximizing profit. D) minimizing return.
- 117) Corporate owners receive a realizable return through 117) _____
 A) increase in share price and cash dividends.
 B) profit and earnings per share.
 C) increase in share price and earnings per share.
 D) earnings per share and cash dividends.
- 118) The role of Board of Directors is to 118) _____
 A) ensure that managers' compensation is protected even when the company performs poorly
 B) monitor management on behalf of shareholders
 C) follow the directions of the Chief Executive Officer (CEO) of the company
 D) represent the interests of management to the shareholders
- 119) The wealth of the owners of a corporation is represented by 119) _____
 A) share price. B) earnings per share.
 C) cash flow. D) profits.
- 120) Wealth maximization as the goal of the firm implies enhancing the wealth of 120) _____
 A) the firm's employees. B) the firm's stockholders.
 C) the federal government. D) the Board of Directors.
- 121) If a company's managers are NOT owners of the company, they are 121) _____
 A) agents. B) dealers. C) brokers. D) outsiders.
- 122) The conflict between the goals of a firm's owners and the goals of its nonowner managers is 122) _____
 A) the agency problem.
 B) of little importance in most large U.S. firms.
 C) incompatibility.
 D) serious only when profits decline.
- 123) The agency problem may result from a manager's concerns about any of the following EXCEPT 123) _____
 A) corporate goals. B) job security.
 C) company-provided perquisites. D) personal wealth.

- 124) Agency costs include all of the following EXCEPT 124) _____
 A) cost of goods sold. B) monitoring expenditures.
 C) opportunity costs. D) bonding and structuring expenses.
- 125) Agency costs include all of the following EXCEPT 125) _____
 A) purchasing insurance against management misconduct.
 B) the cost of monitoring management behavior.
 C) management reports to stockholders.
 D) performance incentives paid to managers.
- 126) One way often used to insure that management decisions are in the best interest of the stockholders is to 126) _____
 A) tie management compensation to the level of earnings per share.
 B) tie management compensation to the performance of the company's common stock price.
 C) remove management's perquisites.
 D) threaten to fire managers who are seen as not performing adequately.
- 127) The amount earned during the accounting period on each outstanding share of common stock is called 127) _____
 A) earnings per share. B) a common stock dividend.
 C) net profits after taxes. D) net income.
- 128) The goal of profit maximization would result in priority for 128) _____
 A) risk of the investment. B) timing of the returns.
 C) earnings per share. D) cash flows available to stockholders.
- 129) Profit maximization does NOT take into consideration 129) _____
 A) cash flow and stock price. B) risk and cash flow.
 C) risk and eps. D) eps and stock price.
- 130) Profit maximization as the goal of the firm is NOT ideal because 130) _____
 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.
- 131) Profit maximization fails because it ignores all EXCEPT 131) _____
 A) cash flows available to stockholders. B) the timing of returns.
 C) earnings per share. D) risk.
- 132) The key variables in the owner wealth maximization process are 132) _____
 A) profits and risk. B) earnings per share and share price.
 C) earnings per share and risk. D) cash flows and risk.
- 133) Return and risk are the key determinants in share price. Increased return results in _____, other things remaining the same. 133) _____
 A) a higher share price B) a lower share price
 C) an unchanged share price D) an undetermined share price

- 134) Return and risk are the key determinants in share price. Increased risk, other things remaining the same, results in _____ 134) _____
 A) an undetermined share price. B) an unchanged share price.
 C) a lower share price. D) a higher share price.
- 135) Financial managers evaluating decision alternatives or potential actions must consider _____ 135) _____
 A) risk, return, and the impact on share price.
 B) only risk.
 C) only return.
 D) both risk and return.
- 136) An ethics program is expected to have _____ impact on the firm's share price. 136) _____
 A) undetermined B) no C) negative D) positive
- 137) The difference between the cost of funds used to finance an investment and its after-tax operating profits is called _____ 137) _____
 A) earnings per share. B) retained earnings.
 C) a dividend. D) economic value added.
- 138) Return and risk _____ 138) _____
 A) have an inverse effect on share price. B) have the same effect on share price.
 C) adversely affect share price. D) have no effect on share price.
- 139) As the risk of a stock investment increases, _____ 139) _____
 A) required rate of return will decrease. B) return will decrease.
 C) return will increase. D) required rate of return will increase.
- 140) A more recent issue that is causing major problems in the business community is _____ 140) _____
 A) short-term versus long-term financial goals of management.
 B) the privatization of ownership.
 C) ethical problems.
 D) environmental concerns.
- 141) One key output of the financial forecasting process are: _____ 141) _____
 A) the past financial statements
 B) the forecasted financial statements
 C) the current financial statements
 D) the amount of funds the company required to operate over the past fiscal period
- 142) All of the following are measures that can be used as a guide for establishing a corporate ethics policy, EXCEPT _____ 142) _____
 A) an effective internal control system.
 B) an effective internal audit system.
 C) making sure violations are penalized, while at the same time not subjecting the employee to publicity.
 D) making reference checks before hiring new employees.

143) Corporate ethics policies typically apply to _____ in dealing with _____. 143) _____
 A) employee actions; all corporate constituents
 B) employee actions; customers, vendors, and regulators
 C) employee actions; customers and creditors
 D) management actions; all corporate constituents

144) A company determines its overall cost of capital by 144) _____
 A) calculating the average cost of interest rates paid on loans and other debt instruments
 B) multiplying the percentage of debt in the capital structure by the percentage of equity
 C) multiplying the percentage of debt by its cost and adding the result to the percentage of equity multiplied by its cost
 D) calculating the percent of earnings paid out in dividends

145) 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. 145) _____

<u>Asset</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
1	\$21,000	\$15,000	\$ 6,000
2	9,000	15,000	21,000
3	3,000	20,000	19,000
4	6,000	12,000	12,000

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

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

146) 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. 146) _____

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

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

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

- 147) 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 147) _____

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

- A) choose Asset 1.
 B) choose Asset 2.
 C) choose Asset 3.
 D) be indifferent between Asset 1 and Asset 2.
- 148) A recent ethics survey indicated the opinion that maintaining high ethical standards 148) _____
 A) weakened a firm's competitive position, particularly in foreign markets.
 B) had no effect on a firm's competitive position.
 C) was difficult to enforce.
 D) strengthened a firm's competitive position.
- 149) PC Express is evaluating the purchase of a new machine that will cost \$300 000. The company 149) _____
 bought the existing machine for \$200 000 five years ago and can sell it today for \$50 000. What is the marginal cost of buying the new machine?
 A) \$100 000 B) \$250 000 C) \$300 000 D) \$50 000
- 150) Bayside Equipment is considering buying new equipment. The existing machine produces 10 000 150) _____
 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) \$20 000 B) \$7 500 C) \$38 500 D) \$22 500
- 151) The implementation of a pro-active ethics program is expected to result in 151) _____
 A) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows.
 B) a positive corporate image and increased respect, but is not expected to affect share price.
 C) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price.
 D) a positive corporate image and increased respect, but is not expected to affect cash flows.
- 152) Among solutions to the agency problem in publicly held corporations are all of the following 152) _____
 EXCEPT
 A) bonuses based on short-term results. B) cash bonuses tied to goal achievement.
 C) performance shares. D) stock options.
- 153) Emerging trends resulting from the agency problem are all of the following EXCEPT 153) _____
 A) restructuring through leveraged buyouts.
 B) management by active investors.
 C) prohibiting managers from maintaining an ownership interest.
 D) large private corporations.

- 154) Benefits to incorporating a small business with one owner include all of the following EXCEPT 154) _____
- A) the small business tax credit on income below \$200,000.
 - B) the ability to raise capital through public offerings.
 - 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.
- 155) When entering into a partnership with a business associate, it is strongly recommended that 155) _____
- A) both partners contribute an equal amount of money and labor.
 - B) a partnership agreement be drafted outlining roles, responsibilities, and profit sharing.
 - C) both partners contribute an equal amount of labor.
 - D) both partners contribute an equal amount of money.
- 156) As a sole proprietor, you are responsible for 156) _____
- A) maintaining financial records and reporting to the government.
 - B) the day-to-day management of the business including customer service.
 - C) marketing the business to the target market.
 - D) all of the above.
- 157) Generally, the Treasurer of a large corporation reports to the 157) _____
- A) Chief Executive Officer.
 - B) General Manager.
 - C) Credit Manager.
 - D) Chief Financial Officer.
- 158) A&B Wholesalers sells 1,000 widgets per day at \$1 each. A&B has introduced a new product to its 158) _____
 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) \$1,600.
 - B) \$800.
 - C) \$600.
 - D) \$1,800.
- 159) When determining a firm's level of net income, accountants use 159) _____
- A) cash flows.
 - B) accrual based amounts.
 - C) static based amounts.
 - D) the actual dollars coming in and going out.
- 160) Canada's industry minister recently travelled to Japan on business and took his wife and three 160) _____
 children. The minister paid for his wife and children's costs out of his own pocket. The minister
- A) appears to have done nothing wrong in the fulfillment of his duties to the crown.
 - B) has created an agency problem by taking his family when travelling on government business.
 - 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.
- 161) For \$200,000 you can buy a business that has steady cash flows and low risk. Given these cash 161) _____
 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 to be a losing proposition but should be bought anyway.
 - B) appears to be a losing proposition and should not be bought.
 - C) looks like a break-even opportunity and should be rejected.
 - D) appears economically profitable, and strong consideration should be given to buying it.

- 170) Hardwood Furniture Limited sold \$1,225,000 worth of tables, chairs and other furniture last year. 170) _____
 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) \$817,156 B) \$1,225,000 C) \$567,911 D) \$975,755
- 171) Sig Hansen runs a ski resort in British Columbia. He is considering replacing the ski lifts at the 171) _____
 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) \$959,000 B) \$345,000 C) \$574,000 D) \$515,000
- 172) Sig Hansen runs a ski resort in British Columbia. He is considering replacing the ski lifts at the 172) _____
 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) \$574,000 C) \$515,000 D) \$215,000

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

- 173) Give two examples of why net income and cash flow do not equal.
- 174) 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.
- 175) The introduction of a mid-sized sedan has increased sales of the luxury model by 2,000 units and decreased sales of the economy model by 1,000 units. It is expected that sales of the mid-sized sedan will be 10,000 units at \$30,000 each. The sales price of the luxury model is \$40,000 and the economy model is \$20,000. Calculate the marginal change in revenues due to the introduction of the mid-sized sedan.
- 176) 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.
- 177) 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 Key

Testname: UNTITLED1

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

Answer Key

Testname: UNTITLED1

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

Answer Key

Testname: UNTITLED1

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

Answer Key

Testname: UNTITLED1

151) C

152) A

153) C

154) B

155) B

156) D

157) D

158) C

159) B

160) A

161) D

162) D

163) D

164) A

165) A

166) A

167) D

168) B

169) B

170) A

171) D

172) D

173) Two of:

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

174) 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.

175) Change in revenues = $10,000 \times 30,000 + 2,000 \times 40,000 - 1,000 \times 20,000 = \$360,000$

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

Answer Key

Testname: UNTITLED1

$$\begin{aligned} 177) \text{ EVA} &= \text{After-tax operating profits} - (\text{funds invested} \times \text{cost of the funds}) \\ &= (150\,000 \times (1 - .32) - (2\,000\,000 \times 12\%)) \\ &= -138\,000 \end{aligned}$$

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