

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

1. The financial manager is responsible for making decisions that are in the best interest of the firm's owners.  
A) True  
B) False  
Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

2. The demand for a potential business product, as well as the identification of what product or services is to be produced, are both contained in a business plan.  
A) True  
B) False  
Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

3. The local Republican Party is a stakeholder in a local firm that makes no political donations to either party.  
A) True  
B) False  
Ans: B

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

4. A patent is a productive asset for a technology-based firm.  
A) True  
B) False  
Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Medium

5. Intangible assets generate most of a manufacturing firm's cash flows.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

6. The most fundamental way that a business can grow in size is from the reinvestment of cash flows or earnings.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Medium

7. When bankruptcy occurs, the firm will always be liquidated.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Medium

8. Capital assets are generally short term in nature.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Medium

9. A good capital budgeting decision is one in which the benefits are worth more to the firm than the cost of the asset.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Medium

10. The financing decision determines how firms raise cash to pay for their investments.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 1

Level of Difficulty: Easy

11. The dollar difference between current assets and total liabilities is called working capital.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Easy

12. A sole proprietorship is an owner's only business.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Medium

13. The greatest number of businesses in the United States are corporations.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Medium

14. Unlimited liability means that the owner of a firm is responsible for paying all the firm's bills.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Medium

15. The process of transferring ownership of a sole proprietorship is relatively easy.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Medium

16. General partners in a business have limited liability with regard to their firm's obligations.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Medium

17. Most large corporations are incorporated in New York because of its favorable tax treatment of corporate income and its statutes protecting the rights of its owners.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Easy

18. Corporations do not have their income subject to double taxation.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 2

Level of Difficulty: Easy

19. Privately held corporations are allowed to have shareholders.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 3

Level of Difficulty: Easy

20. The treasurer of a corporation usually reports to the CFO of the firm.

A) True

B) False

Ans: A

Format: True/False

Learning Objective: LO 3

Level of Difficulty: Easy

21. The external auditors of the firm report their findings directly to the CFO of the firm.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 4

Level of Difficulty: Easy

22. Maximizing revenue should be the goal of the firm.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 5

Level of Difficulty: Easy

23. An agency problem can arise when the agent of the firm is the sole owner of the firm.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 5

Level of Difficulty: Medium

24. The owners of a firm are unaffected by agency costs.

A) True

B) False

Ans: B

Format: True/False

Learning Objective: LO 6

Level of Difficulty: Easy

25. Corruption in business does not affect the functioning of the financial markets.

A) True

B) False

Ans: B

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

26. To start a business, the owners need
- A) a market where there is demand for their product.
  - B) a clear vision of what products or services they want to produce.
  - C) the know-how to successfully market their product.
  - D) all of the above.
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

27. A stakeholder is
- A) anyone geographically close to the firm's headquarters.
  - B) anyone with a claim on the cash flows of the firm.
  - C) any governmental agency.
  - D) all of the above.
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

28. If you have loaned capital to a firm, then you could be
- A) a shareholder.
  - B) a stakeholder.
  - C) a partner.
  - D) all of the above.
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Medium

29. Which of the following are stakeholders?
- A) a shareholder
  - B) a lender
  - C) the IRS
  - D) all of the above
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Medium

30. A trademark is an example of
- A) a productive asset.
  - B) an intangible asset.
  - C) a nebulous asset.
  - D) none of the above.
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Medium

31. Which of the following is a basic source of funds for the firm?
- A) debt
  - B) equity
  - C) asset liquidations
  - D) a and b above
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

32. The cash remaining after the firm has met its operating expenses, payments to creditors, and taxes is called
- A) earnings per share.
  - B) capital contributed in excess of par.
  - C) residual cash.
  - D) assets.
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

33. Cash dividends are paid out of
- A) residual cash.
  - B) liquidated assets.
  - C) long-term debt.
  - D) all of the above.
- Ans: A



Format: Multiple Choice

Learning Objective: LO 1

Level of Difficulty: Medium

34. Current liabilities are liabilities that
- A) will be converted to cash within a year.
  - B) must be paid within a year.
  - C) will be converted to equity within a year.
  - D) none of the above
- Ans: B

Format: Multiple Choice

Learning Objective: LO 1

Level of Difficulty: Medium

35. Capital budgeting involves
- A) how a firm's day-to-day financial matters should be managed.
  - B) how the firm should finance its assets.
  - C) which productive assets the firm should employ.
  - D) all of the above.
- Ans: C

Format: Multiple Choice

Learning Objective: LO 1

Level of Difficulty: Easy

36. Working capital management decisions involve
- A) how a firm's day-to-day financial matters should be managed.
  - B) how the firm should finance its assets.
  - C) which productive assets the firm should employ.
  - D) all of the above.
- Ans: A

Format: Multiple Choice

Learning Objective: LO 1

Level of Difficulty: Medium

37. Capital budgeting decisions generally involve
- A) the fixed asset portion of the balance sheet.
  - B) the short-term portion of the balance sheet.
  - C) the current liability portion of the balance sheet.
  - D) all of the above.
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

38. A good capital budgeting decision is
- A) one in which the benefits of the project are equal to the cost of the asset.
  - B) one in which the benefits of the project are less than the cost of the asset.
  - C) one in which the benefits of the project are more than the cost of the asset.
  - D) all of the above.
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Medium

39. Financial markets in which equity and debt instruments with maturities greater than one year are traded are called
- A) money markets.
  - B) capital markets.
  - C) stock markets.
  - D) none of the above.
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 1  
Level of Difficulty: Easy

40. Profitability of a firm can be negatively affected by
- A) too much inventory.
  - B) too little inventory.
  - C) either a or b.
  - D) neither a nor b.
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Easy

41. About 75 percent of all businesses in the United States are
- A) sole proprietorships.
  - B) partnerships.
  - C) corporations.
  - D) limited liability partnerships.
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Medium

42. Which of the following business organizational forms subjects the owner(s) to unlimited liability?
- A) sole proprietorship
  - B) partnership
  - C) corporation
  - D) a and b
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Medium

43. Which of the following business organizational forms creates a tax liability on income at the personal income tax rate?
- A) sole proprietorship
  - B) partnership
  - C) corporation
  - D) a and b
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Medium

44. Which of the following business organizational forms is easiest to raise capital?
- A) sole proprietorship
  - B) partnership
  - C) corporation
  - D) a and b
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Easy

45. Which of the following owners is protected by limited liability?
- A) a sole proprietor
  - B) a general partner
  - C) a limited partner
  - D) none of the above
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Medium

46. Which of the following cannot be engaged in managing the business?

- A) a sole proprietor
- B) a general partner
- C) a limited partner
- D) none of the above

Ans: C

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Easy

47. Which organizational form accounts for 90 percent of the revenues of all firms in the United States?

- A) sole proprietorship
- B) partnership
- C) corporation
- D) a and b

Ans: C

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Easy

48. Which organizational form best enables a firm to sell its securities to the market?

- A) sole proprietorship
- B) partnership
- C) private corporation
- D) public corporation

Ans: D

Format: Multiple Choice  
Learning Objective: LO 2  
Level of Difficulty: Easy

49. Which of the following organizational forms is subject to the most SEC regulations?

- A) sole proprietorship
- B) partnership
- C) private corporation
- D) public corporation

Ans: D

Format: Multiple Choice

Learning Objective: LO 2

Level of Difficulty: Medium

50. Which organizational form best enables the owners of the firm to monitor the actions of other owners of the same firm?
- A) sole proprietorship
  - B) partnership
  - C) private corporation
  - D) public corporation
- Ans: B

Format: Multiple Choice

Learning Objective: LO 2

Level of Difficulty: Medium

51. Which of the following is considered a hybrid organizational form?
- A) sole proprietorship
  - B) partnership
  - C) corporation
  - D) limited liability partnership
- Ans: D

Format: Multiple Choice

Learning Objective: LO 3

Level of Difficulty: Easy

52. Which of the following reports directly to the owners of the firm (assume the firm is a public corporation)
- A) CFO
  - B) CEO
  - C) board of directors
  - D) audit committee
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 3  
Level of Difficulty: Easy

53. Which of the following is responsible for seeing that the best possible financial analysis is presented?
- A) CFO
  - B) CEO
  - C) board of directors
  - D) audit committee
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 3  
Level of Difficulty: Medium

54. Which of the following is responsible for performing an independent audit of the firm's financial statements?
- A) CFO
  - B) CEO
  - C) CPA firm
  - D) audit committee
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 3  
Level of Difficulty: Easy

55. How is the CPA firm insulated from being pressured by management?
- A) The audit committee approves hiring, firing and fees paid to external auditors.
  - B) The chairman of the board approves the external auditor's fees as well as the engagement letter.
  - C) The IRS approves the external auditor's fees as well as the engagement letter.
  - D) The CPA firm is not insulated from management.
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 4  
Level of Difficulty: Easy

56. Which of the following is an appropriate goal for the firm?
- A) profit maximization
  - B) revenue maximization
  - C) shareholder wealth maximization
  - D) tax minimization
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 4  
Level of Difficulty: Easy

57. When analysts and investors determine the value of a firm's stock, they should consider
- A) the size of the expected cash flows associated with owning the stock.
  - B) the timing of the cash flows.
  - C) the riskiness of the cash flows.
  - D) all of the above.
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Medium

58. One reason for the existence of agency problems between managers and share holders is that
- A) there is a separation of ownership and control of the firm.
  - B) managers know how to manage the firm better than shareholders.
  - C) shareholders have unreasonable expectations about managerial performance.
  - D) none of the above
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Medium

59. Which of the following is a principal within the agency relationship?
- A) a company engineer
  - B) the CEO of the firm
  - C) a shareholder
  - D) the board of directors
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Easy

60. Shareholders elect \_\_\_\_\_ to represent their interest in the firm.
- A) a chairman
  - B) CEO
  - C) a board of directors
  - D) all of the above
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Medium

61. An example of a direct agency cost is
- A) a manager turning down a value-contributing project because of its risks.
  - B) a manager expensing a large dinner on the company expense report.
  - C) a manager using too little debt within the firm's capital structure because of the additional risk associated with debt.
  - D) all of the above
- Ans: B



Format: Multiple Choice

Learning Objective: LO 5

Level of Difficulty: Medium

62. Which of the following can help align the behavior of managers with the goals of shareholders?
- A) management compensation
  - B) managerial labor markets
  - C) an independent board of directors
  - D) all of the above

Ans: D

Format: Multiple Choice

Learning Objective: LO 5

Level of Difficulty: Easy

63. If a firm has had an agency problem that is reflected in a poor performing stock for a long period of time, then the firm may become a target of \_\_\_\_\_.
- A) an SEC investigation.
  - B) a corporate raider.
  - C) an IRS investigation.
  - D) a bankruptcy lawyer.

Ans: B

Format: Multiple Choice

Learning Objective: LO 5

Level of Difficulty: Medium

64. Executives that repeatedly put their own interests before that of the firm may find that they have difficulty finding another job after their current one. This is an example of
- A) the managerial labor market disciplining managers.
  - B) the market for corporate control.
  - C) the board of directors affecting the prospects of a manager.
  - D) none of the above.

Ans: A

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Easy

65. Who or what is responsible for setting the agenda at meetings of the board of directors?
- A) chairman of the board of directors
  - B) president
  - C) nominating committee
  - D) audit committee
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Easy

66. A director who is not an employee of the firm is called
- A) an executive director.
  - B) an inside director.
  - C) an independent director.
  - D) an official director.
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Easy

67. Which of the following is **NOT** one of the strategies incorporated in the Sarbanes-Oxley Act of 2002?
- A) attain greater board independence
  - B) establish compliance programs
  - C) establish ethics programs
  - D) dictate maximum compensation levels
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Medium

68. Which of the following powers does the audit committee have the authority to do?
- A) audit the personal bank account of the CEO
  - B) question any person employed by the firm
  - C) audit the compensation files of firms in the same industry
  - D) none of the above
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 5  
Level of Difficulty: Easy

69. What is the major complaint concerning the Sarbanes-Oxley Act of 2002 by firms?
- A) the legislative maximum allowable compensation for a CEO
  - B) the legal requirement to disclose project information
  - C) the cost of compliance
  - D) the cost of maintaining an SEC-employed officer at the firm's premises
- Ans: C

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Medium

70. A society's ideas about what actions are right and wrong are
- A) morals.
  - B) ethics.
  - C) laws.
  - D) unwritten laws.
- Ans: B

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Easy

71. The golden rule is an example of
- A) a current law.
  - B) an historical law.
  - C) an unworkable rule in financial markets.
  - D) an ethical norm.
- Ans: D

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Medium

72. An example of an economy that had trouble establishing a stock market and attracting foreign investment is
- A) Russia.
  - B) China.
  - C) the Czech Republic.
  - D) Japan.
- Ans: A

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Easy

73. Corruption in business

- A) creates inefficiencies in an economy.
- B) inhibits growth in an economy.
- C) slows the rate of economic growth in a country.
- D) all of the above

Ans: D

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Medium

74. Which corporate officer, when he or she is guilty of serious misconduct, can subject the firm to the most serious losses in financial wealth?

- A) CEO
- B) CFO
- C) Chief Technology Officer
- D) Chief Risk Officer

Ans: B

Format: Multiple Choice  
Learning Objective: LO 6  
Level of Difficulty: Easy

75. An officer of a firm that is a majority owner in a competing firm will probably be subject to

- A) an IRS audit.
- B) a conflict of interest with his share holders.
- C) arbitrage profit returns to the SEC.
- D) an FBI investigation.

Ans: B

Format: Multiple Choice

Learning Objective: LO 6

Level of Difficulty: Medium

76. \_\_\_\_\_ occur(s) when one party in a business transaction has information that is unavailable to the other parties in the transaction.

A) Profits  
B) Information asymmetry  
C) Information efficiency  
D) None of the above

Ans: B

Format: Multiple Choice

Learning Objective: LO 6

Level of Difficulty: Easy

77. With regard to information, a central idea of fairness suggests that

A) decisions should be made on an even playing field.  
B) insiders should be able to trade whenever they want.  
C) insiders should never be able to trade.  
D) outsiders should not be allowed to trade since, by definition, they are at a disadvantage.

Ans: A

Format: Multiple Choice

Learning Objective: LO 3

Level of Difficulty: Easy

78. Which of the following individuals is typically most responsible for managing a large corporation's financial function?

A) The CEO.  
B) The Chairman of the board.  
C) The CBO.  
D) The CFO.

Ans: D

Format: Multiple Choice

Learning Objective: LO 4

Level of Difficulty: Medium

79. If a firm establishes maximizing profits at the most important goal of the firm, which of the following would not be given proper consideration?

- A) Sales revenues
- B) Expenses
- C) Risk
- D) Cost of goods sold

Ans: C

Format: Multiple Choice

Learning Objective: LO 4

Level of Difficulty: Medium

80. Which of the following does maximizing shareholder wealth not usually account for?

- A) Risk.
- B) Government regulation.
- C) The timing of cash flows.
- D) Amount of cash flows.

Ans: B

Format: Multiple Choice

Learning Objective: LO 4

Level of Difficulty: Medium

81. Which of the following factors or activities can be controlled by the management of a firm?

- A) Capital budgeting.
- B) The level of economic activity.
- C) The level of interest rates.
- D) Stock market conditions.

Ans: A

Format: Multiple Choice

Learning Objective: LO 6

Level of Difficulty: Medium

82. The legal system and market forces impose substantial costs on individuals and institutions that engage in unethical behavior. Which of the following would not be an example of the above?
- A) Financial losses.
  - B) Legal fines.
  - C) Agency conflicts.
  - D) Jail time.
- Ans: C

Format: Essay

Learning Objective: LO 4

83. Explain what should be the goal of the firm.
- Ans: The goal of the firm should be to maximize shareholder wealth, which in most cases is equivalent to maximizing the price of the shares of the firm. Note that this is not the same as maximizing profits since maximizing profits can occur while taking on too much risk (which can lower the value of the shareholders investment). Maximizing profits also does not take the timing of the profits into account. Profits, moreover, should not be confused with cash. Maximizing shareholder wealth is also not the same as minimizing risk, which can occur without taking any risks.

Format: Essay

Learning Objective: LO 5

84. Explain how agency costs might be found within a firm whose CEO owns no shares in the firm and whose compensation package is unaffected by the profits (cash or accounting profits) of the firm.
- Ans: Since the manager has no ownership interest in the firm, she has no incentive to make the cash profits of the firm as high as possible. In fact, she has a personal incentive to have the firm pay for as many personal luxuries as possible since her compensation package will be completely unaffected by her decision to purchase the luxuries. In a firm like the above, we might expect the firm to expend a material amount of resources on items that the manager should probably pay for herself.

Format: Essay

Learning Objective: LO 6

85. You have a friend who tells you that ethics are completely unimportant in business since a number of laws have been set up for us to know the rules of the game.

Ans: Despite heavy regulation, the financial sector has a long and rich history of financial scandals. While a good many of the scandals are due to laws that have been disregarded, many of the scandals began as ethical lapses. This suggests that laws are not enough to preclude behavior that is detrimental to the well-functioning of the markets.