

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

- 1) The likelihood that managers may place personal goals ahead of corporate goals is called the agency problem. 1) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 2) The implementation of a pro-active ethics program is expected to result in 2) _____
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.

Answer: C

Diff: 0 Type: MC

- 3) A capital gain occurs when an asset has been held for 3) _____
A) less than six months. B) more than six months.
C) more than one year. D) any length of time.

Answer: D

Diff: 0 Type: MC

- 4) Career opportunities in financial services include all of the following EXCEPT 4) _____
A) real estate and insurance. B) investments.
C) personal financial planning. D) capital expenditures management.

Answer: D

Diff: 0 Type: MC

- 5) Under which of the following legal forms of organization, is ownership readily transferable? 5) _____
A) Corporation. B) Limited partnership.
C) Sole proprietorships. D) Partnerships.

Answer: A

Diff: 0 Type: MC

- 6) The financial manager may be responsible for any of the following EXCEPT 6) _____
A) analyzing budget and performance reports.
B) analyzing the effects of more debt on the firm's capital structure.
C) monitoring of quarterly tax payments.
D) determining whether to accept or reject a capital asset acquisition.

Answer: C

Diff: 0 Type: MC

7) The financial manager may be responsible for any of the following EXCEPT

7) _____

- A) keeping track of quarterly tax payments.
- B) determining whether to accept or reject a capital asset acquisition.
- C) analyzing quarterly budget and performance reports.
- D) analyzing the effects of more debt on the firm's capital structure.

Answer: A

Diff: 0 Type: MC

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

8) The sole proprietor has unlimited liability; his or her total investment in the business can be taken to satisfy creditors.

8) _____

Answer: True ☒ False

Diff: 0 Type: TF

9) The price-to-earnings (PE) ratio measures the amount common stock investors are willing to pay for each dollar of the firm's earnings.

9) _____

Answer: ☒ True False

Diff: 0 Type: TF

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

10) 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

10) _____

- A) high leverage.
- B) lack of cash flow.
- C) low profitability.
- D) inability to receive credit.

Answer: B

Diff: 0 Type: MC

11) Most money market transactions are made in

11) _____

- A) marketable securities.
- B) preferred stock.
- C) stocks and bonds.
- D) common stock.

Answer: A

Diff: 0 Type: MC

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

12) Tax laws are used to accomplish economic goals such as providing incentives for corporate investment in certain types of assets.

12) _____

Answer: ☒ True False

Diff: 0 Type: TF

13) Primary and secondary markets are markets for short-term and long-term securities, respectively.

13) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 14) The financial manager is interested in the cash inflows and outflows of the firm, rather than the accounting data, in order to ensure 14) _____
 A) profitability. B) solvency.
 C) the ability to acquire new assets. D) the ability to pay dividends.

Answer: B

Diff: 0 Type: MC

- 15) 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. 15) _____

| Asset | Year 1 | Year 2 | Year 3 |
|-------|----------|----------|---------|
| 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 4. B) Asset 1. C) Asset 2. D) Asset 3.

Answer: C

Diff: 0 Type: MC

- 16) The average tax rate of a corporation with ordinary income of \$105,000 and a tax liability of \$24,200 is 16) _____
 A) 46 percent. B) 15 percent. C) 23 percent. D) 34 percent.

Answer: C

Diff: 0 Type: MC

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

- 17) In the OTC market, the prices at which securities are traded result from both competitive bids and negotiation. 17) _____

Answer: ☒ True False

Diff: 0 Type: TF

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

- 18) Which of the following legal forms of organization is most expensive to organize? 18) _____
 A) Corporations. B) Limited partnership.
 C) Partnerships. D) Sole proprietorships.

Answer: A

Diff: 0 Type: MC

- 19) The nonexclusive sale of either bonds or stocks to the general public is called 19) _____
 A) private placement. B) organized selling.
 C) public offering. D) none of the above.

Answer: C

Diff: 0 Type: MC

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

- 20) The board of directors is responsible for managing day-to-day operations and carrying out the policies established by the chief executive officer. 20) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 21) The financial manager's financing decisions determine 21) _____
A) both the mix and the type of assets found on the firm's balance sheet.
B) both the mix and the type of assets and liabilities found on the firm's balance sheet.
C) the most appropriate mix of short-term and long-term financing.
D) the proportion of the firm's earnings to be paid as dividend.

Answer: C

Diff: 0 Type: MC

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

- 22) The accrual method recognizes revenue at the point of sale and recognizes expenses when incurred. 22) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 23) Return and risk are the key determinants in share price. Increased return results in _____, other things remaining the same. 23) _____
A) a higher share price. B) an undetermined share price.
C) an unchanged share price. D) a lower share price.

Answer: A

Diff: 0 Type: MC

- 24) The true owner(s) of the corporation is (are) the _____. 24) _____
A) stockholders B) creditors
C) board of directors D) chief executive officer

Answer: A

Diff: 0 Type: MC

- 25) Corporation A owns 15 percent of the stock of corporation B. Corporation B pays corporation A \$100,000 in dividends in 2002. Corporation A must pay tax on 25) _____
A) \$ 30,000 of ordinary income. B) \$100,000 of ordinary income.
C) \$ 70,000 of capital gain. D) \$ 70,000 of ordinary income.

Answer: A

Diff: 0 Type: MC

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

- 26) Higher risk tends to result in a higher share price since the stockholder must be compensated for the greater risk. 26) _____

Answer: True ☒ False
Diff: 0 Type: TF

- 27) 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. 27) _____

Answer: ☒ True False
Diff: 0 Type: TF

- 28) Finance is concerned with the process institutions, markets, and instruments involved in the transfer of money among and between individuals, businesses and government. 28) _____

Answer: ☒ True False
Diff: 0 Type: TF

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

- 29) The _____ is created by a financial relationship between suppliers and demanders of short-term funds. 29) _____

A) capital market B) stock market
C) financial market D) money market

Answer: D
Diff: 0 Type: MC

- 30) Profit maximization fails because it ignores all EXCEPT 30) _____

A) risk. B) the timing of returns.
C) cash flows available to stockholders. D) earnings per share.

Answer: D
Diff: 0 Type: MC

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

- 31) Eurocurrency deposits arise when a corporation or individual makes a deposit in a bank in a currency other than the local currency of the country where the bank is located. 31) _____

Answer: ☒ True False
Diff: 0 Type: TF

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

- 32) 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 32) _____

A) \$37,500 and -\$112,500, respectively. B) \$37,500 and -\$150,000, respectively.
C) \$150,000 and \$112,500, respectively. D) \$0 and \$150,000, respectively.

Answer: A
Diff: 0 Type: MC

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

- 33) In S corporations, stockholders receive all of the organizational benefits of a corporation and the tax advantages of a partnership, but lose certain tax advantages related to pension plans that are available to traditional corporations. 33) _____

Answer: ☒ True False

Diff: 0 Type: TF

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

- 34) The two key financial markets are 34) _____
A) money market and capital market. B) capital market and secondary market.
C) primary market and money market. D) primary market and secondary market.

Answer: A

Diff: 0 Type: MC

- 35) Trading is carried out in the Over-the-Counter (OTC) Exchange by 35) _____
A) the auction process.
B) an investment banker.
C) the competitive bid process.
D) the competitive bid process and the negotiation process.

Answer: D

Diff: 0 Type: MC

- 36) Marginal analysis states that financial decisions should be made and actions taken only when 36) _____
A) added benefits are greater than zero. B) added benefits exceed added costs.
C) demand equals supply. D) benefits equal costs.

Answer: B

Diff: 0 Type: MC

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

- 37) Consider two firms, Go Debt corporation and No Debt corporation. Both firms are expected to have earnings before interest and taxes of \$100,000 during the coming year. In addition, Go Debt is expected to incur \$40,000 in interest expenses as a result of its borrowings whereas No Debt will incur no interest expense because it does not use debt financing. However, No Debt will have to pay stockholders \$40,000 in dividend income. Both firms are in the 40 percent tax bracket. Calculate the Earnings after tax for both firms. Which firm has the higher after-tax earnings? Which firm appears to have the higher cash flow? How do you account for the difference?

Answer:

| | Go Debt | No Debt |
|------------------------------------|---------------|---------------|
| Earnings before interest and taxes | \$100,000 | \$100,000 |
| Less: Interest expense | <u>40,000</u> | <u>0</u> |
| Earnings before taxes | \$ 60,000 | \$100,000 |
| Less: Taxes (40%) | <u>24,000</u> | <u>40,000</u> |
| Earnings after taxes | \$ 36,000 | \$ 60,000 |
| Less: Dividends paid | <u>0</u> | <u>40,000</u> |

Go Debt has lower earnings after taxes compared to No Debt. However, from a cash outflow perspective, Go Debt paid out a total of only \$64,000 (\$40,000 in interest expenses plus \$24,000 in taxes) while No debt paid out a total of \$80,000 (\$40,000 in taxes and \$40,000 in dividends). The difference between the two is \$16,000 which is exactly the difference in taxes paid between the two firms (\$24,000 compared to \$40,000). This difference results from the fact that interest expense is a tax deductible expense.

Diff: 0 Type: ES

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

- 38) The _____ is created by a number of institutions and arrangements that allow the suppliers and demanders of long-term funds to make transactions. 38) _____
- A) financial market B) money market
C) capital market D) credit market

Answer: C

Diff: 0 Type: MC

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

- 39) Money markets involve the trading of securities with maturities of one year or less while capital market involve the buying and selling of securities with maturities of more than one year. 39) _____

Answer: ☒ True False

Diff: 0 Type: TF

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

- 40) All of the following are measures that can be used as a guide for establishing a corporate ethics policy, EXCEPT 40) _____
- A) making sure violations are penalized, while at the same time not subjecting the employee to publicity.
B) an effective internal control system.
C) making reference checks before hiring new employees.
D) an effective internal audit system.

Answer: A

Diff: 0 Type: MC

- 41) The dividend exclusion for corporations receiving dividends from another corporation has resulted in _____ 41) _____
- A) stock investments being relatively less attractive, relative to bond investments made by one corporation in another corporation.
 - B) a lower cost of equity for the corporation paying the dividend.
 - C) stock investments being relatively more attractive relative to bond investments made by one corporation in another corporation.
 - D) a higher relative cost of bond-financing for the corporation paying the dividend.

Answer: C

Diff: 0 Type: MC

- 42) Congress allows corporations to exclude from taxes 70 to 100 percent of dividends received from other corporations. Congress did this to _____ 42) _____
- A) avoid double taxation on dividends.
 - B) lower the cost of equity financing for corporations.
 - C) avoid triple taxation on dividends.
 - D) encourage corporations to invest in each other.

Answer: C

Diff: 0 Type: MC

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

- 43) 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. _____ 43) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 44) The accountant may be responsible for any of the following EXCEPT _____ 44) _____
- A) processing purchase orders and invoices.
 - B) ensuring accounts payable are paid on time.
 - C) analyzing the mix of current to fixed assets.
 - D) preparing the monthly income statement.

Answer: C

Diff: 0 Type: MC

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

- 45) Unlike an S corporation, the limited liability corporation (LLC) can own more than 80 percent of another corporation, and corporations, partnerships, or non-U.S. residents can own limited liability corporation shares. _____ 45) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 46) A "legal entity" which can sue and be sued, make and be party to contracts, and acquire property in its own name is 46) _____
A) a partnership. B) a professional partnership.
C) a sole proprietorship. D) a corporation.

Answer: D

Diff: 0 Type: MC

- 47) The over-the-counter (OTC) market is 47) _____
A) the New York Stock Exchange.
B) an intangible market for unlisted securities.
C) a place where securities are bought and sold.
D) an organized stock exchange.

Answer: B

Diff: 0 Type: MC

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

- 48) Recent studies on executive compensation have failed to find a strong relationship between CEO compensation and share price. 48) _____
Answer: ☒ True False
Diff: 0 Type: TF

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

- 49) In a corporation, the members of the board of directors are elected by the 49) _____
A) chief executive officer. B) employees.
C) stockholders. D) creditors.

Answer: C

Diff: 0 Type: MC

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

- 50) Marginal analysis states that financial decisions should be made and actions taken only when added benefits exceeds added costs. 50) _____
Answer: ☒ True False
Diff: 0 Type: TF

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

- 51) If a corporation sells certain assets for more than their initial purchase price, the difference between the sale price and the purchase price is called a(n) 51) _____
A) capital gain. B) ordinary gain. C) capital loss. D) ordinary loss.

Answer: A

Diff: 0 Type: MC

- 52) Corporate owner's receive realizable return through 52) _____
A) increase in share price and cash dividends.
B) earnings per share and cash dividends.
C) increase in share price and earnings per share.
D) profit and earnings per share.

Answer: A

Diff: 0 Type: MC

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

- 53) An efficient market is a market that allocates funds to their most productive use as a result of competition among wealth-maximizing investors. 53) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 54) The primary emphasis of the financial manager is the use of 54) _____
A) organization charts. B) cash flow.
C) profit incentives. D) accrued earnings.

Answer: B

Diff: 0 Type: MC

- 55) An ethics program is expected to have a _____ impact on the firm's share price. 55) _____
A) no impact B) negative C) positive D) undetermined

Answer: C

Diff: 0 Type: MC

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

- 56) 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 profitability. 56) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 57) The major purpose of the Sarbanes-Oxley Act of 2002 was to place caps on the compensation that could be paid to corporate executives. 57) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 58) Managerial finance 58) _____
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

Diff: 0 Type: MC

- 59) The tax liability of a corporation with ordinary income of \$1,100,000 is _____. 59) _____
 A) \$374,000 B) \$362,250 C) \$340,000 D) \$390,000

Answer: A

Diff: 0 Type: MC

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

- 60) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk. 60) _____

Answer: ☒ True False

Diff: 0 Type: TF

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

- 61) The controller is commonly responsible for _____ 61) _____
 A) financial planning. B) financial accounting.
 C) managing credit activities. D) managing cash.

Answer: B

Diff: 0 Type: MC

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

- 62) During 2002, a firm has sold 5 assets described below. Calculate the tax liability on the assets. The firm pays a 40 percent tax rate on ordinary income.

| Asset | Purchase Price | Sale Price |
|-------|----------------|------------|
| 1 | \$10,000 | \$12,000 |
| 2 | \$50,000 | \$40,000 |
| 3 | \$37,500 | \$50,000 |
| 4 | \$ 3,000 | \$ 3,500 |
| 5 | \$15,000 | \$12,000 |

Answer:

| Asset | Tax Liability | | |
|-------|----------------|---|---------|
| 1 | \$ 2,000(0.40) | = | \$ 800 |
| 2 | — | | |
| 3 | \$12,500(0.40) | = | \$5,000 |
| 4 | \$ 500(0.40) | = | \$ 200 |
| 5 | — | | |

Diff: 0 Type: ES

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

- 63) 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 63) _____

| Year | Asset 1 | Asset 2 | Asset 3 |
|------|----------|----------|----------|
| 1 | \$21,000 | \$ 9,000 | \$ 8,000 |
| 2 | 15,000 | 15,000 | 21,000 |
| 3 | 9,000 | 18,000 | 19,000 |
| | \$46,000 | \$41,000 | \$48,000 |

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

Answer: A

Diff: 0 Type: MC

- 64) About 75 percent of all business firms are 64) _____
A) sole proprietorships. B) S-corporations.
C) corporations. D) partnerships.

Answer: A

Diff: 0 Type: MC

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

- 65) Dividends received on common and preferred stocks held in other corporations are all subject to exclusion for tax purposes in order to avoid triple taxation. 65) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 66) 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 66) _____

- A) \$3,000 and \$7,000, respectively. B) \$7,000 and -\$3,000, respectively.
C) \$3,000 and -\$7,000, respectively. D) \$3,000 and \$10,000, respectively.

Answer: C

Diff: 0 Type: MC

- 67) The treasurer is commonly responsible for 67) _____
A) cost accounting. B) taxes.
C) making capital expenditures. D) data processing.

Answer: C

Diff: 0 Type: MC

- 68) Trading is carried out on the floor of the New York Stock Exchange by _____
A) a telecommunications network. B) the negotiation process.
C) the auction process. D) investment bankers.

Answer: C

Diff: 0 Type: MC

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

Answer: D

Diff: 0 Type: MC

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

- 70) The financial manager places primary emphasis on cash flows, the inflow and outflow of cash. _____

Answer: ☒ True False

Diff: 0 Type: TF

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

- 71) 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

Diff: 0 Type: MC

- 72) The financial manager's investment decisions determine _____
A) both the mix and the type of short-term and long-term financing.
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 liabilities found on the firm's balance sheet.
D) both the mix and the type of assets found on the firm's balance sheet.

Answer: D

Diff: 0 Type: MC

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

Answer: D

Diff: 0 Type: MC

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

Answer: C

Diff: 0 Type: MC

- 75) Economic theories that the financial manager must be able to utilize for efficient business operations, include 75) _____
- A) profit-maximizing strategies.
 - B) supply-and-demand analysis.
 - C) price theory.
 - D) marginal analysis.
 - E) all of the above.

Answer: E

Diff: 0 Type: MC

- 76) A competitive market that allocates funds to their most productive use is called a(n) 76) _____
- A) liquid market.
 - B) investor's market.
 - C) efficient market.
 - D) middleman's market.

Answer: C

Diff: 0 Type: MC

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

- 77) Meese Paper Distributors, Inc. has before-tax earnings of \$1,900,000. Calculate the amount of the total tax liability.

Answer:

| Meese Paper Distributors | | Tax Liability |
|---|---|------------------|
| $0.15 \times \$50,000$ | = | \$ 7,500 |
| $0.25 \times \$25,000$ | = | 6,250 |
| $0.34 \times \$25,000$ | = | 8,500 |
| $0.39 \times (\$335,000 - \$100,000)$ | = | 91,650 |
| $0.34 \times (\$1,900,000 - \$335,000)$ | = | <u>\$532,100</u> |
| Total tax liability | = | <u>\$646,000</u> |

Diff: 0 Type: ES

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

- 78) The marginal tax rate represents the rate at which additional income is taxed. 78) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 79) Which of the following is a career opportunity in managerial finance? 79) _____
- A) Capital expenditures Management.
 - B) Real Estate and Insurance.
 - C) Personal Financial Planning.
 - D) Investment.

Answer: A

Diff: 0 Type: MC

- 80) The key role of the financial manager is 80) _____
A) the collection of financial data.
B) the presentation of financial statements.
C) decision making.
D) the preparation of data for future evaluation.

Answer: C

Diff: 0 Type: MC

- 81) A recent ethics survey indicated the opinion that maintaining high ethical standards 81) _____
A) strengthened a firm's competitive position.
B) had no effect on a firm's competitive position.
C) weakened a firm's competitive position, particularly in foreign markets.
D) was difficult to enforce.

Answer: A

Diff: 0 Type: MC

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

- 82) High cash flow is generally associated with a higher share price whereas higher risk tends to result 82) _____
in a lower share price.

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 83) Financial markets are intermediaries that channel the savings of individuals, businesses and 83) _____
government into loans or investments.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 84) Where risk is involved, stockholders expect to earn higher rates of return on investments of lower 84) _____
risk and vice versa.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 85) Jennings, Inc. has a tax liability of \$170,000 on pretax income of \$500,000. What is the average tax 85) _____
rate for Jennings, Inc.?
A) 34 percent B) 46 percent C) 40 percent D) 25 percent

Answer: A

Diff: 0 Type: MC

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

- 86) Dividend payments change directly with changes in earnings per share. 86) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 87) In limited partnerships, only one partner may assume limited liability. All other partners have to 87) _____
have unlimited liability.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 88) The key participants in financial transactions are individuals, businesses, and governments. 88) _____
Individuals are net _____ of funds, and businesses are net _____ of funds.
A) suppliers; demanders B) users; providers
C) demanders; suppliers D) purchasers; sellers

Answer: A

Diff: 0 Type: MC

- 89) Profit maximization does NOT take into consideration 89) _____
A) EPS and stock price. B) risk and EPS.
C) risk and cash flow. D) cash flow and stock price.

Answer: C

Diff: 0 Type: MC

- 90) The part of finance concerned with design and delivery of advice and financial products to 90) _____
individuals, business, and government is called
A) Financial Services. B) Financial Manager.
C) Managerial Finance. D) none of the above.

Answer: A

Diff: 0 Type: MC

- 91) By concentrating on cash flows within the firm the financial manager should be able to 91) _____
A) prepare tax returns. B) control expenses.
C) avoid insolvency. D) speak authoritatively to stockholders.

Answer: C

Diff: 0 Type: MC

- 92) Financial service 92) _____
A) involves the design and delivery of advice and financial products.
B) is concerned with the duties of the financial manager.
C) provides guidelines for the efficient operation of the business.
D) handles accounting activities related to data processing.

Answer: A

Diff: 0 Type: MC

- 93) The goal of profit maximization would result in priority for 93) _____
A) earnings per share. B) timing of the returns.
C) risk of the investment. D) cash flows available to stockholders.

Answer: A

Diff: 0 Type: MC

- 94) The dominant form of organization with respect to receipts and net profits is the 94) _____
A) partnership. B) sole proprietorship.
C) S-corporation. D) corporation.

Answer: D

Diff: 0 Type: MC

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

- 95) Economic value added (EVA) is calculated by subtracting the cost of funds used to finance an investment from its after-tax operating profits. 95) _____

Answer: ☒ True False
Diff: 0 Type: TF

- 96) A financial supermarket is an institution at which a customer can obtain a full array of financial services, such as checking, savings, brokerage, insurance, retirement and estate planning. 96) _____

Answer: ☒ True False
Diff: 0 Type: TF

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

- 97) Agency costs include all of the following EXCEPT 97) _____
A) purchasing insurance against management misconduct.
B) performance incentives paid to managers.
C) management reports to stockholders.
D) the cost of monitoring management behavior.

Answer: C
Diff: 0 Type: MC

- 98) The financial manager recognizes revenues and expenses utilizing 98) _____
A) the standardized, generally accepted, accounting principles.
B) the actual inflows and outflows of cash.
C) the revenue method.
D) the accrual method.

Answer: B
Diff: 0 Type: MC

- 99) The major securities traded in the capital markets are 99) _____
A) commercial paper and treasury bills. B) bonds and commercial paper.
C) stocks and bonds. D) treasury bills and certificates of deposit.

Answer: C
Diff: 0 Type: MC

- 100) Most businesses raise money by selling their securities in a 100) _____
A) public offering. B) private placement.
C) stock exchange. D) direct placement.

Answer: A
Diff: 0 Type: MC

- 101) Which of the following legal forms of organization is characterized by limited liability? 101) _____
A) Professional partnership. B) Sole proprietorship.
C) Corporation. D) Partnership.

Answer: C
Diff: 0 Type: MC

- 102) The agency problem may result from a manager's concerns about any of the following EXCEPT 102) _____
A) job security. B) personal wealth.
C) company-provided perquisites. D) corporate goals.

Answer: D

Diff: 0 Type: MC

- 103) Financial analysis and planning involve all of the following EXCEPT 103) _____
A) controlling the data processing activities.
B) transforming data into a form that can be used to monitor the firm's financial position.
C) evaluating the need for increased or reduced productive capacity.
D) determining the additional financing needs.

Answer: A

Diff: 0 Type: MC

- 104) A more recent issue that is causing major problems in the business community is 104) _____
A) the privatization of ownership.
B) ethical problems.
C) short-term versus long-term financial goals of management.
D) environmental concerns.

Answer: B

Diff: 0 Type: MC

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

- 105) In partnerships, a partner can readily transfer his/her wealth to other partners. 105) _____

Answer: True ☒ False

Diff: 0 Type: TF

- 106) 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. 106) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 107) The tax liability of a corporation with ordinary income of \$1,500,000 is _____. 107) _____
A) \$585,000 B) \$498,250 C) \$690,000 D) \$510,000

Answer: D

Diff: 0 Type: MC

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

- 108) 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. 108) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 109) Managing the firm's liabilities includes all of the following EXCEPT 109) _____
A) accounts payable. B) cash.
C) accruals. D) notes payable.

Answer: B

Diff: 0 Type: MC

- 110) Managerial finance 110) _____
A) involves the design and delivery of advice and financial products.
B) devotes the majority of its attention to the collection and presentation of financial data.
C) recognizes funds on an accrual basis.
D) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement.

Answer: D

Diff: 0 Type: MC

- 111) Making financing decisions includes all of the following EXCEPT 111) _____
A) deciding which individual long-term sources are best at a given point in time.
B) deciding which individual short-term sources are best at a given point in time.
C) analyzing quarterly budget and performance reports.
D) determining the appropriate mix of short-term and long-term financing.

Answer: C

Diff: 0 Type: MC

- 112) The tax liability of a corporation with ordinary income of \$105,000 is _____. 112) _____
A) \$24,200 B) \$42,000 C) \$23,950 D) \$35,700

Answer: A

Diff: 0 Type: MC

- 113) Making investment decisions includes all of the following EXCEPT 113) _____
A) inventory. B) fixed assets.
C) notes payable. D) accounts receivable.

Answer: C

Diff: 0 Type: MC

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

- 114) Managerial finance is concerned with design and delivery of advice and financial products to individuals, business, and government. 114) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 115) The accountant's primary function is 115) _____
A) evaluating the financial statements.
B) planning cash flows.
C) making decisions based on financial data.
D) the collection and presentation of financial data.

Answer: D

Diff: 0 Type: MC

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

- 116) The corporate treasurer's focus tends to be more external, while the controller's focus is more internal. 116) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 117) Financial managers evaluating decision alternatives or potential actions must consider 117) _____
A) risk, return, and the impact on share price.
B) only return.
C) both risk and return.
D) only risk.

Answer: A

Diff: 0 Type: MC

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

- 118) The wealth of corporate owners is measured by the share price of the stock. 118) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 119) In planning and managing the requirements of the firm, the financial manager is concerned with 119) _____
A) the acquisition of fixed assets, allowing someone else to plan the level of current assets required.
B) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition.
C) the mix and type of assets, but not the type of financing utilized.
D) the type of financing utilized, but not the mix and type of assets.

Answer: B

Diff: 0 Type: MC

- 120) Managing the firm's assets includes all of the following EXCEPT 120) _____
A) notes payable. B) accounts receivable.
C) fixed assets. D) inventory.

Answer: A

Diff: 0 Type: MC

- 121) The responsibility for managing day-to-day operations and carrying out corporate policies belongs to the _____. 121) _____
- A) creditors
B) chief executive officer
C) stockholders
D) board of directors

Answer: B

Diff: 0 Type: MC

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

- 122) The accountant evaluates financial statements, develops additional data, and makes decisions based on his or her assessment of the associated returns and risks. 122) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 123) Which of the following is NOT a financial institution? 123) _____
- A) A commercial bank.
B) A newspaper publisher.
C) An insurance company.
D) A pension fund.

Answer: B

Diff: 0 Type: MC

- 124) The _____ is responsible for evaluating and recommending proposed asset investments. 124) _____
- A) Pension Fund Manager
B) Capital Expenditures Analyst
C) Financial Analyst
D) Credit Analyst

Answer: B

Diff: 0 Type: MC

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

- 125) 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. 125) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 126) A financial analyst is responsible for maintaining and controlling the firm's daily cash balances. Frequently manages the firm's short-term investments and coordinates short-term borrowing and banking relationships. 126) _____

Answer: True ☒ False

Diff: 0 Type: TF

- 127) The money market is a financial relationship created by a number of institutions and arrangements that allows suppliers and demanders of long-term funds to make transactions. 127) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 128) Trading is carried out on the floor of the New York Stock Exchange by _____ 128) _____
A) the auction process. B) the negotiation process.
C) investment bankers. D) a telecommunications network.

Answer: A

Diff: 0 Type: MC

- 129) Corporate ethics policies typically apply to _____ in dealing with _____. 129) _____
A) employee actions; customers, vendors, and regulators
B) employee actions; customers and creditors
C) employee actions; all corporate constituents
D) management actions; all corporate constituents

Answer: C

Diff: 0 Type: MC

- 130) The Sarbanes-Oxley Act of 2002 was passed in response to _____ 130) _____
A) insider trading activities. B) the decline in technology stocks.
C) false disclosures in financial reporting. D) all of the above.

Answer: C

Diff: 0 Type: MC

- 131) The primary economic principle used in managerial finance is _____ 131) _____
A) marginal analysis. B) the liquidity trap.
C) the crowding out effect. D) supply and demand.

Answer: A

Diff: 0 Type: MC

- 132) The board of directors is typically responsible for _____ 132) _____
A) hiring and firing. B) developing strategic goals and plans.
C) both (a) and (b). D) neither (a) nor (b).

Answer: C

Diff: 0 Type: MC

- 133) The officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting is the _____ 133) _____
A) controller. B) treasurer.
C) foreign exchange manager. D) none of the above

Answer: A

Diff: 0 Type: MC

- 134) The accountant recognizes revenues and expenses on _____ 134) _____
A) an expense basis. B) a cash basis.
C) an accrual basis. D) a revenue basis.

Answer: C

Diff: 0 Type: MC

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

- 135) Dividends received by corporations on common and preferred stock held in other corporations and representing less than 20 percent ownership in them is subject to 70 percent exclusion for tax purposes. 135) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 136) Among solutions to the agency problem in publicly-held corporations are all of the following EXCEPT 136) _____

A) cash bonuses tied to goal achievement. B) performance shares.
C) bonuses based on short-term results. D) stock options.

Answer: C

Diff: 0 Type: MC

- 137) 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 137) _____

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

Answer: B

Diff: 0 Type: MC

- 138) The wealth of the owners of a corporation is represented by 138) _____

A) share price. B) cash flow.
C) profits. D) earnings per share.

Answer: A

Diff: 0 Type: MC

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

- 139) 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. 139) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 140) The Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) instituted interest-rate ceilings on all accounts a financial institution offers. 140) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 141) Firms that require funds from external sources can obtain them in one of the following ways EXCEPT 141) _____
- A) government. B) private placement.
C) financial institution. D) financial markets.
- Answer: A
Diff: 0 Type: MC

- 142) Long-term debt instruments used by both government and business are known as 142) _____
- A) stocks. B) bonds. C) bills. D) equities.
- Answer: B
Diff: 0 Type: MC

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

- 143) 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. 143) _____
- Answer: True ☒ False
Diff: 0 Type: TF

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

- 144) All of the following are true EXCEPT 144) _____
- A) Interest income received by a corporation is taxed as ordinary income.
B) Capital gains is taxed as ordinary income.
C) Corporations pay taxes on all dividends received from other corporations, no matter their share of ownership.
D) Corporations may pay taxes on only 30 percent of the dividends received from other corporations, depending on their percentage of ownership.
- Answer: C
Diff: 0 Type: MC

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

- 145) 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. 145) _____
- Answer: ☒ True ☐ False
Diff: 0 Type: TF
- 146) The ordinary income of a corporation is income earned through the sale of a firm's goods and services and is currently taxed subject to the individual income tax rates. 146) _____
- Answer: True ☒ False
Diff: 0 Type: TF

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

- 147) Corporation X needs \$1,000,000 and can raise this through debt at an annual rate of 10 percent, or preferred stock at an annual cost of 7 percent. If the corporation has a 40 percent tax rate, the after-tax cost of each is 147) _____
- A) debt: \$100,000; preferred stock: \$70,000. B) debt: \$60,000; preferred stock: \$70,000.
C) debt: \$100,000; preferred stock: \$42,000. D) debt: \$60,000; preferred stock: \$42,000.

Answer: B

Diff: 0 Type: MC

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

- 148) In large companies, the project finance manager is responsible for coordinating the assets and liabilities of the employees' pension fund. 148) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 149) One way often used to insure that management decisions are in the best interest of the stockholders is to 149) _____
- 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) threaten to fire managers who are seen as not performing adequately.
D) remove management's perquisites.

Answer: B

Diff: 0 Type: MC

- 150) All of the following are services provided by financial institutions EXCEPT 150) _____
- A) lend money to customers.
B) pay savers' interest on deposited funds.
C) invest customers' savings in stocks and bonds.
D) buy the businesses of customers.

Answer: D

Diff: 0 Type: MC

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

- 151) Using certain standardized and generally accepted principles, the accountant prepares financial statements that recognize revenue at the point of sale and expenses when incurred. 151) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 152) _____ is concerned with the duties of the financial manager in the business firm. 152) _____
- A) Financial Services B) Managerial Finance
C) Financial Manager D) None of the above

Answer: B

Diff: 0 Type: MC

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

- 153) A public offering is the sale of a new security issue-typically debt or preferred stock-directly to an investor or group of investors. 153) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 154) Return and risk are the key determinants in share price. Increased risk, other things remaining the same, results in 154) _____

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

Answer: A

Diff: 0 Type: MC

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

- 155) Financial analysis and planning is concerned with analyzing the mix of assets and liabilities. 155) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 156) All of the following are examples of organized stock exchanges EXCEPT 156) _____

A) the New York Stock Exchange. B) the American Stock Exchange.
C) the over-the-counter exchange. D) the Pacific Stock Exchange.

Answer: C

Diff: 0 Type: MC

- 157) Finance can be defined as 157) _____

A) the art of merchandising products and services.
B) the art and science of managing money.
C) the system of debits and credits.
D) the science of the production, distribution, and consumption of wealth.

Answer: B

Diff: 0 Type: MC

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

- 158) The Over-the-Counter (OTC) exchange is not an organization but an intangible market for trading securities which are not listed by the organized exchanges. 158) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 159) The financial manager prepares financial statements that recognize revenue at the point of sale and expenses when incurred. 159) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 160) The conflict between the goals of a firm's owners and the goals of its non-owner managers is 160) _____
A) incompatibility.
B) the agency problem.
C) serious only when profits decline.
D) of little importance in most large U.S. firms.

Answer: B

Diff: 0 Type: MC

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

- 161) Financial managers actively manage the financial affairs of many types of business-financial and 161) _____
non-financial, private and public, for-profit and not-for-profit.

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 162) Loan transactions between commercial banks in which the federal government becomes involved 162) _____
are referred to as federal funds.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 163) The corporate treasurer typically handles the both cost accounting and financial accounting. 163) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 164) Institutional investors are professional investors who work on behalf of the federal government to 164) _____
ensure fairness in the financial markets.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 165) A major weakness of a partnership is 165) _____
A) difficulty liquidating or transferring ownership.
B) limited liability.
C) low organizational costs.
D) access to capital markets.

Answer: A

Diff: 0 Type: MC

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

- 166) The corporate controller is the officer responsible for the firm's financial activities such as financial 166) _____
planning and fund raising, making capital expenditure decisions, and managing cash, credit, the
pension fund, and foreign exchange.

Answer: ☐ True ☒ False

Diff: 0 Type: TF

167) A high earnings per share (EPS) does not necessarily translate into a high stock price. 167) _____
Answer: ☒ True False
Diff: 0 Type: TF

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

168) The _____ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies. 168) _____
A) board of directors B) creditors
C) chief executive officer D) stockholders
Answer: A
Diff: 0 Type: MC

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

169) The eurocurrency market is a market for short-term bank deposits denominated in U.S. dollars or other easily convertible currencies. 169) _____
Answer: ☒ True False
Diff: 0 Type: TF

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

170) All of the following are key strengths of a corporation EXCEPT 170) _____
A) limited liability. B) access to capital markets.
C) low organization costs. D) readily transferable ownership.
Answer: C
Diff: 0 Type: MC

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

171) The board of directors of most large corporations today include both inside directors and outside directors. 171) _____
Answer: ☒ True False
Diff: 0 Type: TF

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

172) By definition, the money market involves the buying and selling of 172) _____
A) funds that mature in more than one year. B) flows of funds.
C) short-term funds. D) stocks and bonds.
Answer: C
Diff: 0 Type: MC

173) The tax deductibility of expenses _____ their after-tax cost. 173) _____
A) reduces B) has no effect on
C) has an undetermined effect on D) increases
Answer: A
Diff: 0 Type: MC

- 174) Passage of the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980 signaled the beginning of _____ 174) _____
- A) lower interest rates on time deposits. B) prohibition on interstate banking.
C) automated teller machines. D) the financial services revolution.

Answer: D

Diff: 0 Type: MC

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

- 175) Financial services are concerned with the duties of the financial manager. 175) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 176) Firms that require funds from external sources can obtain them from _____ 176) _____
- A) financial markets. B) private placement.
C) financial institutions. D) all of the above.

Answer: D

Diff: 0 Type: MC

- 177) The amount earned during the accounting period on each outstanding share of common stock is called _____ 177) _____

A) net income. B) common stock dividend.
C) net profits after taxes. D) earnings per share.

Answer: D

Diff: 0 Type: MC

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

- 178) Because of the dividend exclusion only 70 percent of the intercorporate dividends are included as ordinary income. 178) _____

Answer: True ☒ False

Diff: 0 Type: TF

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

- 179) In general, most corporate capital gains are taxed at _____ tax rate. 179) _____
- A) a 28 percent B) the ordinary C) a 46 percent D) a 30 percent

Answer: B

Diff: 0 Type: MC

- 180) The key activities of the financial manager include all of the following EXCEPT _____ 180) _____
- A) making financing decisions. B) managing financial accounting.
C) making investment decisions. D) financial analysis and planning.

Answer: B

Diff: 0 Type: MC

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

181) A financial institution is an intermediary that channels the savings of individuals, businesses, and governments into loans or investments. 181) _____

Answer: ☒ True ☐ False
Diff: 0 Type: TF

182) In partnerships, owners have unlimited liability and may have to cover debts of other less financially sound partners. 182) _____

Answer: ☒ True ☐ False
Diff: 0 Type: TF

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

183) The difference between the cost of funds used to finance an investment and its after-tax operating profits is called 183) _____

- A) dividend.
- B) earnings per share.
- C) retained earnings.
- D) economic value added.

Answer: D
Diff: 0 Type: MC

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

184) Market forces and agency costs help to prevent or minimize agency problems. 184) _____

Answer: ☒ True ☐ False
Diff: 0 Type: TF

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

185) The _____ stock exchange is a primary market where new public issues are sold. 185) _____

- A) regional
- B) over-the-counter
- C) New York
- D) American

Answer: B
Diff: 0 Type: MC

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

186) In limited partnerships, partners' liabilities are limited to their investment in the partnership. 186) _____

Answer: ☐ True ☒ False
Diff: 0 Type: TF

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

- 187) 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. 187) _____

| Asset | Year 1 | Year 2 | Year 3 |
|-------|----------|----------|----------|
| 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 4. B) Asset 2. C) Asset 3. D) Asset 1.

Answer: D

Diff: 0 Type: MC

- 188) Which of the following legal forms of organization's income is NOT taxed under individual income tax rate? 188) _____

- A) Corporation. B) Sole proprietorships.
C) Limited partnership. D) Partnerships.

Answer: A

Diff: 0 Type: MC

- 189) Securities exchanges create efficient markets that do all of the following EXCEPT 189) _____

- A) allow the price to be determined by supply and demand of securities.
B) allocate funds to the most productive uses.
C) control the supply and demand for securities through price.
D) ensure a market in which the price reflects the true value of the security.

Answer: C

Diff: 0 Type: MC

- 190) All of the following are functions of security exchanges EXCEPT 190) _____

- A) creating continuous markets. B) holding demand deposits.
C) allocating scarce capital. D) aiding in new financing.

Answer: B

Diff: 0 Type: MC

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

- 191) Unlike the organized exchanges, the OTC makes a market in both outstanding securities and new public issues, making it both a secondary and a primary market. 191) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 192) The Sarbanes-Oxley Act of 2002 did all of the following EXCEPT 192) _____
A) toughen penalties against executives who commit corporate fraud.
B) tighten audit regulations and controls.
C) toughen penalties against overcompensated executives.
D) all of the above are true.

Answer: C

Diff: 0 Type: MC

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

- 193) Economic value added (EVA) is the difference between the cost of funds used to finance an investment and its after-tax operating profits. 193) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 194) In the OTC market, the ask price is the highest price offered by a dealer to purchase a given security. 194) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

- 195) A primary market is a financial market in which pre-owned securities are traded. 195) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 196) Agency costs include all of the following EXCEPT 196) _____
A) cost of goods sold. B) monitoring expenditures.
C) bonding and structuring expenses. D) opportunity costs.

Answer: A

Diff: 0 Type: MC

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

- 197) Return and risk are the key determinants of share price, which represents the wealth of the owners in the firm. 197) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 198) Investors find Eurobonds attractive because they provide currency diversification and because they provide anonymity to the investor wishing to avoid payment of taxes. 198) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

- 199) 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. 199) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 200) The primary goal of the financial manager is 200) _____
A) maximizing profit. B) minimizing risk.
C) minimizing return. D) maximizing wealth.

Answer: D

Diff: 0 Type: MC

- 201) As the risk of a stock investment increases 201) _____
A) return will decrease. B) required rate of return will increase.
C) return will increase. D) required rate of return will decrease.

Answer: B

Diff: 0 Type: MC

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

- 202) The corporate controller typically handles the accounting activities, such as tax management, data processing, and cost and financial accounting. 202) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

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

- 203) Included in the primary activities of the financial manager are 203) _____
A) financial analysis and planning.
B) making financing decisions.
C) analyzing and planning cash flows.
D) making investment decisions.
E) all of the above.

Answer: E

Diff: 0 Type: MC

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

- 204) The agency problem is the acquisition of a firm by another firm that is not supported by management. 204) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

- 205) Emerging trends resulting from the agency problem are all of the following EXCEPT 205) _____
A) restructuring through leveraged buyouts.
B) management by active investors.
C) prohibiting managers from maintaining an ownership interest.
D) large private corporations.

Answer: C

Diff: 0 Type: MC

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

206) With progressive tax rates, the average tax rate is always less than or equal to the marginal tax rate. 206) _____

Answer: ☒ True ☐ False

Diff: 0 Type: TF

207) The corporate treasurer is the officer responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting. 207) _____

Answer: ☐ True ☒ False

Diff: 0 Type: TF

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

208) Return and risk 208) _____

- | | |
|---|-----------------------------------|
| A) have an inverse effect on share price. | B) have no effect on share price. |
| C) have the same effect on share price. | D) adversely affect share price. |

Answer: A

Diff: 0 Type: MC

209) Government usually 209) _____

- A) borrows funds directly from financial institutions.
- B) is a net supplier of funds.
- C) is a net demander of funds.
- D) maintains permanent deposits with financial institutions.

Answer: C

Diff: 0 Type: MC