

Student: \_\_\_\_\_

1. When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important.  
True False
2. In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.  
True False
3. Maximization of the current earnings of the firm is the main goal of the financial manager.  
True False
4. The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation.  
True False
5. The primary goal of financial management is to minimize the corporate tax liability.  
True False
6. When owners are managers (such as in a sole proprietorship), a firm will have agency costs.  
True False
7. IBEC Inc. of Toronto spends approximately \$2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.  
True False
8. The board of directors has the power to act on behalf of the shareholders to hire and fire the operating management of the firm. In a legal sense, the directors are "principals" and the shareholders are "agents".  
True False
9. The corporate officer generally responsible for tasks related to tax management, cost accounting, financial accounting, and data processing is the:  
A. Corporate Controller.  
B. Vice President of Operations.  
C. Director.  
D. Corporate Treasurer.  
E. Chairman of the Board.
10. The corporate officer generally responsible for tasks related to cash and credit management, financial planning, and capital expenditures is the:  
A. Chairman of the Board.  
B. Vice President of Operations.  
C. Corporate Controller.  
D. Corporate Treasurer.  
E. Director.
11. The process of planning and managing a firm's long-term investments is called:  
A. Capital structure.  
B. Working capital management.  
C. Agency cost analysis.  
D. Capital budgeting.  
E. Financial depreciation.

12. The mixture of debt and equity used by the firm to finance its operations is called:
  - A. capital structure.
  - B. financial depreciation.
  - C. working capital management.
  - D. capital budgeting.
  - E. agency cost analysis.
13. The management of the firm's short-term assets and liabilities is called:
  - A. Financial depreciation.
  - B. Capital structure.
  - C. Capital budgeting.
  - D. Working capital management.
  - E. Agency cost analysis.
14. A business owned by a single individual is called a(n):
  - A. Partnership.
  - B. Closed receivership.
  - C. Sole proprietorship.
  - D. Corporation.
  - E. Open structure.
15. A business formed by two or more individuals or entities is called a(n):
  - A. Open structure.
  - B. Sole proprietorship.
  - C. Corporation.
  - D. Partnership.
  - E. Closed receivership.
16. The division of profits and losses between the members of a partnership is formalized in the:
  - A. Indenture contract.
  - B. Indemnity clause.
  - C. Partnership agreement.
  - D. Statement of purpose.
  - E. Group charter.
17. A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):
  - A. Sole proprietorship.
  - B. Partnership.
  - C. Closed receivership.
  - D. Corporation.
  - E. Open structure.
18. The document that legally establishes domicile for a corporation is called the:
  - A. Bylaws.
  - B. Partnership agreement.
  - C. Articles of incorporation.
  - D. Indenture contract.
  - E. Amended homestead filing.
19. The rules by which corporations govern themselves are called:
  - A. Indenture provisions.
  - B. Partnership agreements.
  - C. Indemnity provisions.
  - D. Bylaws.
  - E. Articles of incorporation.

20. The primary goal of financial management is to:
- A. Maintain steady earnings growth.
  - B. Maximize current sales.
  - C. Minimize operational costs.
  - D. Maximize the current value per share of the existing stock.
  - E. Avoid financial distress.
21. The possibility of conflict of interest between the stockholders and management of the firm is called:
- A. The shareholders' conundrum.
  - B. The agency problem.
  - C. Corporate breakdown.
  - D. Legal liability.
  - E. Corporate activism.
22. Agency costs are:
- A. The costs that result from default and bankruptcy of the firm.
  - B. The total interest paid to creditors over the lifetime of the firm.
  - C. The total dividends paid to shareholders over the lifetime of the firm.
  - D. The costs of the conflict of interest between stockholders and management.
  - E. Corporate income subject to double taxation.
23. A stakeholder is:
- A. A proxy vote made at a shareholders' meeting.
  - B. Given to each stockholder when they first purchase their stock.
  - C. A founding stockholder of the firm.
  - D. An original creditor of the firm.
  - E. A person or entity including a stockholder or creditor, who potentially has a claim on the cash flows of the firm.
24. The original sale of securities by governments and corporations occurs in the:
- A. Dealer market.
  - B. Liquidation market.
  - C. Primary market.
  - D. Auction market.
  - E. Secondary market.
25. The purchase and sale of securities after the original issuance occurs in the:
- A. Secondary market.
  - B. Liquidation market.
  - C. Dealer market.
  - D. Primary market.
  - E. Auction market.
26. A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):
- A. Dealer market.
  - B. Auction market.
  - C. Primary market.
  - D. Secondary market.
  - E. Liquidation market.
27. A market where trading takes place between buyers and sellers directly is called a(n):
- A. Liquidation market.
  - B. Auction market.
  - C. Secondary market.
  - D. Dealer market.
  - E. Primary market.

28. The secondary market is:
- A. the market in which purchasers are matched with those who wish to sell.
  - B. the market for the original sale of securities by governments and corporations.
  - C. a market which has no central location.
  - D. the market in which dealers buy and sell for themselves, at their own risk.
  - E. the market in which securities are bought and sold after original sale.
29. The Corporate Treasurer is in charge of:
- A. Tax management.
  - B. Cost accounting.
  - C. Data processing.
  - D. Financial accounting.
  - E. Credit management.
30. The Chief Financial Officer of a corporation is the:
- A. Corporate Treasurer.
  - B. Chairman of the Board.
  - C. Corporate Controller.
  - D. President.
  - E. Vice President of Finance.
31. Deciding whether or not to open a new store is part of the process known as:
- A. Working capital management.
  - B. Capital structure.
  - C. Cash management.
  - D. Capital budgeting.
  - E. Credit management.
32. Capital structure refers to:
- A. The management of long-term investments.
  - B. The accounts receivable policy.
  - C. The amount of cash on hand.
  - D. The amount of inventory held.
  - E. The mixture of debt and equity.
33. Working capital management refers to:
- A. The mixture of debt and equity.
  - B. The types of stock issued.
  - C. The amount of long-term debt.
  - D. The levels of cash and inventory held.
  - E. The types of long-term investments made.
34. A business that is a distinct legal entity is a:
- A. Corporation.
  - B. General partnership.
  - C. Proprietorship.
  - D. Limited partnership.
  - E. Partnership with only two partners.
35. The primary goal of financial management is to maximize the:
- A. Book value of the firm.
  - B. Growth rate of a firm.
  - C. Current value of each share of outstanding stock.
  - D. Number of shares of common stock outstanding.
  - E. Compensation of the corporate officers.

36. A proxy fight is:
- A. A normal part of a corporate merger.
  - B. Used as a means of issuing additional shares of common stock.
  - C. Used as a means of increasing the amount of dividends paid per share.
  - D. A means used to decrease the number of outstanding shares of stock.
  - E. A method used by stockholders to replace corporate management.
37. Suppliers, customers, and employees of a corporation are called:
- A. Stockholders.
  - B. Shareholders.
  - C. Debtors.
  - D. Stakeholders.
  - E. Partners.
38. A proprietorship is:
- A. A business managed by a single general partner.
  - B. A limited liability form of business ownership.
  - C. A separate legal body formed by an individual who has limited personal liability.
  - D. A business owned by an individual who has unlimited personal liability.
  - E. A business formed by two or more individuals.
39. Conflicts that arise between the interests of managers and stockholders are referred to as:
- A. Control problems.
  - B. Agency problems.
  - C. Proxy fights.
  - D. Stockholder conflicts.
  - E. Management conflicts.
40. The primary market includes:
- A. The sale of stock by a shareholder in the OTC market.
  - B. The sale of new securities by a corporation on an exchange.
  - C. The sale of stock by a shareholder in the open market.
  - D. The sale of stock by a shareholder in an auction market.
  - E. The purchase and sale of shares of stock between two shareholders.
41. Stocks that trade on an exchange are referred to as:
- A. SEC stocks.
  - B. Listed stocks.
  - C. Primary stocks.
  - D. Privately held stocks.
  - E. Optioned stocks.
42. An individual who buys and sells stocks for his/her own account is a:
- A. OTC broker.
  - B. Broker.
  - C. Agent.
  - D. Auctioneer.
  - E. Dealer.
43. Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?
- A. The Corporate Treasurer
  - B. The Chairman of the Board
  - C. The Corporate Controller
  - D. The Vice President of Production
  - E. The Board of Directors

44. The controller can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.
- A. production functions
  - B. cash balances
  - C. financial planning
  - D. accounting functions
  - E. capital expenditures
45. The treasurer can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.
- A. data processing functions
  - B. financial planning
  - C. tax matters
  - D. financial accounting
  - E. cost accounting
46. Capital budgeting is defined as the:
- A. management of a firm's net working capital.
  - B. management of a firm's long-term investments.
  - C. determination of the total amount of money which a firm should borrow.
  - D. mix of debt and equity used by a firm to finance its operations.
  - E. process of determining the optimal types and amounts of inventory to keep on hand.
47. A firm's capital structure is defined:
- A. by the types of fixed assets the firm owns.
  - B. as the combination of debt and equity used to finance the firm's operations.
  - C. by the nature of the product or service provided.
  - D. as the mix of short-term and long-term assets owned by the firm.
  - E. as the amount of fixed assets needed to support every \$1 in sales.
48. Working capital management refers specifically to:
- A. the oversight of a firm's current accounts.
  - B. the daily use of a firm's fixed assets to generate revenue.
  - C. the utilization of a firm's assets on a daily basis.
  - D. obtaining the necessary funds to finance a firm's daily activities.
  - E. the management of a firm's loan accounts from financial institutions.
49. A sole proprietorship is best defined as a business owned by:
- A. individuals who enjoy limited liability.
  - B. an individual for less than ten years.
  - C. a single individual who has limited liability for the firm's debts.
  - D. a single individual who has unlimited liability for the firm's debts.
  - E. one or more individuals who have agreed to accept unlimited liability for the firm.
50. A general partnership is best defined as a business owned by:
- A. one or more individuals who are each totally responsible for the debts of the entity.
  - B. multiple individuals, 80 percent of whom enjoy limited liability.
  - C. two or more individuals, each of whom has limited liability for the firm's debts.
  - D. a single individual who desires limited liability for the firm's debts.
  - E. two or more individuals, only one of whom has unlimited liability for the firm's debts.
51. An entity wherein one or more owners may elect to actively manage the firm while other owners choose limited liability instead of management responsibility is called a:
- A. general partnership.
  - B. limited liability corporation.
  - C. limited partnership.
  - D. limited liability company.
  - E. corporation.

52. Bylaws are:
- A. the rules by which corporations govern themselves.
  - B. the documents which set forth the business purpose of a firm.
  - C. the documents which specify how tax liabilities will be allocated among the owners.
  - D. the agreements which specify which partners are general partners and which are limited partners.
  - E. the terms by which partnership profits are distributed.
53. The agency problem is best defined as a conflict of interest between a firm's:
- A. stockholders and the firm's managers.
  - B. stockholders and the firm's debtors.
  - C. various managers.
  - D. managers and the firm's employees.
  - E. various employees.
54. The primary goal of financial management is defined as the:
- A. minimization of the outstanding debt owed by the firm to third parties.
  - B. maximization of the current value per share of the outstanding stock.
  - C. maintenance of a steady stream of dividends to the existing shareholders.
  - D. minimization of the risks associated with company ownership.
  - E. maximization of the current profits per share of the firm.
55. An agency problem is said to exist when there is a conflict of interest between \_\_\_\_\_ and \_\_\_\_\_.
- A. an agent; his or her representative
  - B. one shareholder; another shareholder
  - C. a shareholder; a stakeholder
  - D. a broker; a dealer
  - E. a principal; his or her agent
56. The primary market is defined as the market:
- A. mechanism by which a sale of a financial instrument between two shareholders is conducted.
  - B. where stocks and bonds are exchanged between dealers.
  - C. commonly known as the over-the-counter market.
  - D. operated by brokers for the benefit of shareholders.
  - E. wherein the original sale of securities by the issuer to the general public occurs.
57. The secondary market is the market wherein:
- A. shareholders buy from and sell to other shareholders.
  - B. the security issuer is the seller and the buyer is a member of the general public.
  - C. one issuer exchanges securities directly with another issuer.
  - D. the government is either the buyer or the seller of the security.
  - E. the security issuer is the buyer and the seller is a member of the general public.
58. A dealer is a person who:
- A. buys and sells but does not own the commodity being bought or sold.
  - B. buys and sells for themselves, at their own risk.
  - C. conducts a trade on behalf of another individual.
  - D. buys and sells on behalf of the original issuer of the commodity being bought or sold.
  - E. buys and sells strictly on the trading floor of an exchange.
59. The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:
- A. chief executive officer.
  - B. chairman of the board.
  - C. controller.
  - D. director.
  - E. treasurer.

60. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:
- A. controller.
  - B. chief operations officer.
  - C. chairman of the board.
  - D. treasurer.
  - E. director.
61. The process of planning and managing a firm's long-term investments is called:
- A. agency cost analysis.
  - B. capital budgeting.
  - C. working capital management.
  - D. capital structure.
  - E. financial depreciation.
62. The mixture of debt and equity used by a firm to finance its operations is called:
- A. working capital management.
  - B. financial depreciation.
  - C. capital structure.
  - D. cost analysis.
  - E. capital budgeting.
63. The management of a firm's short-term assets and liabilities is called:
- A. capital structure.
  - B. equity management.
  - C. debt management.
  - D. working capital management.
  - E. capital budgeting.
64. Which one of the following correctly defines the chain of command in a typical corporate organizational structure?
- A. The chief executive officer reports to the board of directors.
  - B. The vice president of finance reports to the chairman of the board.
  - C. The chief operations officer reports to the vice president of production.
  - D. The controller reports to the president.
  - E. The treasurer reports to the chief executive officer.
65. A business formed by two or more individuals who each have unlimited liability for business debts is called a:
- A. corporation.
  - B. general partnership.
  - C. sole proprietorship.
  - D. limited partnership.
  - E. limited liability company.
66. The division of profits and losses among the members of a partnership is formalized in the:
- A. indenture contract.
  - B. partnership agreement.
  - C. indemnity clause.
  - D. group charter.
  - E. statement of purpose.
67. A business created as a distinct legal entity composed of one or more individuals or entities is called a:
- A. limited partnership.
  - B. unlimited liability company.
  - C. general partnership.
  - D. corporation.
  - E. sole proprietorship.



68. The corporate document that sets forth the business purpose of a firm is the:
- A. provincial tax agreement.
  - B. indenture contract.
  - C. articles of incorporation.
  - D. corporate bylaws.
  - E. corporate charter.
69. Capital structure decisions include which of the following?
- A. determining the number of shares of stock to issue
  - B. evaluating the size of inventory to be kept on hand
  - C. allocating funds to the various divisions within the firm
  - D. evaluating the customer credit policy
  - E. determining whether the firm should purchase or lease some equipment
70. The decision to issue debt rather than additional shares of stock is an example of:
- A. a net working capital decision.
  - B. capital budgeting.
  - C. the capital structure decision
  - D. working capital management.
  - E. a controller's duties.
71. A conflict of interest between the stockholders and management of a firm is called:
- A. stockholders' liability.
  - B. corporate activism.
  - C. legal liability.
  - D. the agency problem.
  - E. corporate breakdown.
72. A stakeholder is:
- A. any person or entity that owns shares of stock of a corporation.
  - B. any person or entity that has voting rights based on stock ownership of a corporation.
  - C. a person who initially started a firm and currently has management control over the cash flows of the firm due to his/her current ownership of company stock.
  - D. a creditor to whom the firm currently owes money and who consequently has a claim on the cash flows of the firm.
  - E. any person or entity who potentially has a claim on the cash flows of the firm.
73. The original sale of securities by governments and corporations to the general public occurs in the:
- A. proprietary market.
  - B. liquidation market.
  - C. secondary market.
  - D. primary market.
  - E. private placement market.
74. When one shareholder sells stock directly to another the transaction is said to occur in the:
- A. TSX market.
  - B. dealer market.
  - C. primary market.
  - D. secondary market.
  - E. OTC market.
75. A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):
- A. liquidation market.
  - B. auction market.
  - C. secondary market.
  - D. primary market.
  - E. dealer market.

76. A market where trading takes place directly between buyers and sellers is called a(n):
- A. dealer market.
  - B. OTC market.
  - C. primary market.
  - D. liquidation market.
  - E. auction market.
77. Which of the following is an answer to "What are the duties of a financial manager?"
- I. Deciding how much interest to pay the holders of the corporation's bonds.
  - II. Deciding the mix of long-term debt and equity.
  - III. Deciding which projects a firm should undertake.
  - IV. Deciding how much short-term debt to use.
- A. II, III, and IV only
  - B. I and II only
  - C. I, II, and III only
  - D. I, II, III, and IV
  - E. II and III only
78. A financial manager is responsible for deciding whether or not new manufacturing equipment should be purchased to replace existing equipment. The new equipment would reduce labour expenses and would allow the firm to reduce its investment in inventory. Which of the financial management areas would be involved in the decision process?
- I. Capital budgeting
  - II. Capital structure management
  - III. Working capital management
- A. I and II only
  - B. I, II, and III
  - C. II and III only
  - D. I only
  - E. I and III only
79. According to the balance sheet model of the firm, corporate finance may be thought of as the analysis of three primary subject areas. Which of the following correctly lists these areas?
- A. Capital budgeting, capital structure, net working capital
  - B. Capital budgeting, capital spending, net working capital
  - C. Capital budgeting, capital structure, capital spending
  - D. Capital structure, net working capital, capital rationing
  - E. Capital structure, capital budgeting, security analysis
80. Which of the following is NOT considered one of the basic questions of corporate finance?
- A. How should the firm manage its working capital, i.e., its everyday financial activities?
  - B. Where will the firm get the long-term financing to pay for its investments?
  - C. What long-term investments should the firm choose?
  - D. At what rate of interest should a firm borrow?
  - E. What mixture of debt and equity should the firm use to fund its operations?
81. In the evaluation of cash flow in a capital budgeting decision, which of the following must be considered?
- I. The size of the cash flow.
  - II. The timing of the cash flow.
  - III. The risk of the cash flow.
- A. II and III only
  - B. I only
  - C. I, II, III
  - D. I and II only
  - E. II only

82. Which of the following combinations of attributes would make a capital expenditure project desirable to a financial manager?
- I. The project is worth more to the firm than the cost to acquire it.
  - II. The value of the cash flow generated by the project exceeds the project's cost.
  - III. The project's cash flows have acceptable levels of risk and size, but not timing.
- A. I and III only
  - B. II and III only
  - C. I and II only
  - D. I, II, and III
  - E. I only
83. The term capital structure describes:
- A. the firm's short-term assets and short-term liabilities.
  - B. the mixture of debt and equity a firm uses to finance its operations.
  - C. the mix of preferred stock and common stock that makes up the equity account of a firm.
  - D. the mixture of long-term investments a firm has made.
  - E. the mixture of short-term liabilities a firm uses to finance its short-term assets.
84. A financial manager is responsible for determining the firm's appropriate level of inventory. Which of the financial management areas addresses this decision?
- I. Capital budgeting
  - II. Capital structure management
  - III. Working capital management
- A. I only
  - B. II only
  - C. I, II, and III
  - D. I and II only
  - E. III only
85. Which of the following statements is/are false concerning partnerships?
- I. Limited partners are responsible for all debts of the partnership.
  - II. Limited partners generally do not manage the partnership.
  - III. In a limited partnership, all partners share equally in the gains or losses.
- A. II only
  - B. I and III only
  - C. I only
  - D. I and II only
  - E. I, II, and III
86. Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?
- A. Dividends received by the corporation's shareholders are tax-exempt.
  - B. The corporation has an unlimited life.
  - C. The owners of the corporation have unlimited liability for the firm's debts.
  - D. It is the simplest to start.
  - E. It is more difficult to transfer ownership in a corporation.
87. Which of the following is a true statement concerning corporations?
- A. When dividends are paid, corporate profits are taxed once.
  - B. The corporation has limited liability for business debts.
  - C. The life of the corporation is unlimited.
  - D. It is difficult to transfer ownership of corporate shares.
  - E. The equity that can be raised by the corporation is limited to the current shareholders' personal wealth.

88. Sue Folker wants to start a new business decommissioning nuclear warheads and reactors. The work will involve significant hazards, and Sue is concerned about protecting her personal wealth from any losses the business might incur. If she is to be the majority owner of the business how should she structure it?
- A. As a corporation
  - B. As a general partnership
  - C. As a limited partnership
  - D. As a real estate investment trust
  - E. As a sole proprietorship
89. Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a \_\_\_\_\_.
- A. sole proprietorship
  - B. corporation
  - C. limited partnership
  - D. partnership
  - E. limited liability company
90. Which of the following is a true statement concerning a general partnership?
- I. Partners are not responsible for the debts of the partnership.
  - II. Partners generally do not manage the partnership.
  - III. The income of a partnership is taxed at the partners' income tax rate.
- A. I, II, and III
  - B. I and II only
  - C. III only
  - D. I and III only
  - E. I only
91. The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?
- I. Sole proprietorship
  - II. Partnership
  - III. Corporation
- A. I and III only
  - B. II and III only
  - C. II only
  - D. III only
  - E. I only
92. Which of the following is considered a benefit of the corporate form of organization?
- I. Ease of the transfer of ownership
  - II. Limited life
  - III. Double taxation
- A. II only
  - B. I and III only
  - C. I and II only
  - D. I only
  - E. I, II, and III
93. A \_\_\_\_\_ can lose, at most, what she has already invested in a firm.
- I. common stockholder
  - II. limited partner
  - III. general partner
  - IV. sole proprietor
- A. I, II, and IV only
  - B. I only
  - C. II, III, and IV only
  - D. II and III only
  - E. I and II only

94. When does the double taxation problem faced by corporations exist?
- A. Whenever a corporation earns a profit and pays taxes on that profit.
  - B. Whenever stockholders are paid a dividend and are taxed on that dividend income.
  - C. Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its stockholders who pay personal taxes.
  - D. Whenever a corporation earns a profit, pays taxes on that profit, and then pays dividends to its tax-exempt shareholders.
  - E. Whenever a corporation earns a profit, pays taxes on that profit, and then pays interest to its bondholders.
95. Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?
- A. Maximize profits.
  - B. Maximize the current value per share of the existing stock.
  - C. Maximize sales.
  - D. Avoid financial distress.
  - E. Maintain steady earnings growth.
96. A financial manager of a corporation is considering different operating strategies for the coming year. From a financial management standpoint, which of the following would be her optimal strategy?
- A. Undertake the plan that would reduce the overall riskiness of the firm.
  - B. Undertake the plan that would maximize her personal wealth.
  - C. Undertake the plan that would lead to the most stable stock price for the year.
  - D. Undertake the plan that would maximize the current stock price.
  - E. Undertake the plan that would result in the largest profits for the year.
97. The total market value of the firm's equity is determined by \_\_\_\_\_.
- A. the corporate treasurer
  - B. the firm's stockholders
  - C. the firm's stakeholders
  - D. the firm's financial manager
  - E. regulatory authorities
98. Which of the following is a type of agency cost?
- A. The costs of financing the firm.
  - B. The cost of buying insurance on the firm's assets.
  - C. Salaries paid to the firm's managers.
  - D. The cost of a corporate jet needed to keep tabs on foreign operations.
  - E. The cost of an audit of the firm's financial statements.
99. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate the purchase price. Identify the parties to this transaction.
- A. Ann is the principal and Ted is the agent.
  - B. Ted is the principal and Ann is the agent.
  - C. Mary is the agent while Ted and Ann together are principals.
  - D. Ann is the principal and Mary is the agent.
  - E. Mary is the principal and Ann is the agent.

100. The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly,
- A. the firm will incur some agency costs if the manager acts to maximize market share.
  - B. this arrangement may be unnecessary, since the goal of the firm is to maximize earnings for shareholders, and that is most likely accomplished through larger market share.
  - C. the manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders.
  - D. the firm may incur some agency costs since the manager will be focused on the market share of the firm rather than acting to maximize earnings.
  - E. the financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives.
101. Which of the following is/are correct regarding agency costs?
- I. Indirect costs occur when managers, acting to minimize the risk of the firm, forego investments shareholders would prefer they take.
  - II. Direct costs occur when shareholders must incur costs to monitor the manager's actions.
  - III. Direct costs occur when managers buy assets considered unnecessary by the firm's owners.
- A. II only
  - B. I and II only
  - C. II and III only
  - D. I, II, and III
  - E. I only
102. Of the following, which statement regarding agency costs is false?
- A. If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management.
  - B. An agency problem exists when there is a conflict of interest between the stockholders and management of a firm.
  - C. A corporate expenditure that benefits stockholders but harms management is an agency cost.
  - D. An agency problem exists when there is a conflict of interest between a principal and an agent.
  - E. An indirect agency cost occurs when firm management avoids risky projects that would favourably affect the stock price because the managers are worried about keeping their jobs.
103. Which of the following help ensure managers act in the best interest of owners?
- I. A compensation package for managers that ties their salary to the firm's share price.
  - II. Managers are promoted only if the firm prospers.
  - III. The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management.
  - IV. There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.
- A. I, III, and IV only
  - B. I and III only
  - C. I, II, III, and IV
  - D. I and II only
  - E. II and III only
104. Which of the following is a true statement concerning the economics of ethical decision-making?
- I. The higher the probability of detection, the more likely that one will cheat.
  - II. The higher the sanctions imposed if detected, the less likely one is to cheat.
  - III. The expected costs of unethical behaviour are lower if information about cheating is rapidly and widely distributed.
- A. I only
  - B. II only
  - C. I and II only
  - D. I, II, and III
  - E. I and III only

105. Which of the following markets is considered a dealer market?
- A. The Ontario Securities Commission
  - B. New York Stock Exchange
  - C. The real estate market
  - D. The over-the-counter (OTC) market
  - E. The Toronto Stock Exchange
106. You are interested in purchasing 100 shares of stock in one of the largest corporations in the Canada. You would most likely purchase the shares in \_\_\_\_\_.
- A. a secondary market operated as an auction market
  - B. a secondary market operated as a money market
  - C. a primary market operated as a dealer market
  - D. a primary market operated as an auction market
  - E. a secondary market operated as a dealer market
107. Which of the following does NOT correctly finish this sentence: In Canada, \_\_\_\_\_.
- A. the OTC market does not have a central location
  - B. over-the-counter markets are operated as auction markets
  - C. new issues of securities occur in primary markets
  - D. auction markets have a physical location
  - E. financial markets function as both primary and secondary markets for debt and equity securities
108. Which of the following is NOT a general criteria that must be met in order for a firm to be listed on the TSX?
- A. The firm must have a minimum number of shareholders owning at least 100 shares.
  - B. The firm must have a minimum amount of assets.
  - C. The firm must have a minimum number of directors.
  - D. The firm must have a minimum number of shares outstanding.
  - E. The firm must have a minimum market value.
109. Which of the following would be considered a primary market transaction?
- A. A buy order to a dealer for shares of a company OTC
  - B. A sell order to a broker for a stock listed on the TSX
  - C. A buy order to an investment banker for a new public stock offering
  - D. A buy order to a broker for shares of a company on the Venture Exchange
  - E. A buy order to a broker for shares of a company on the TSX
110. Which of the following is considered a "primary market" transaction?
- I. You buy shares in the public offering of a start-up company in the computer industry.
  - II. Your mother sells you the shares she purchased in your uncle's latest business venture.
  - III. You buy shares in Nortel Networks from your closest friend.
- A. I, II, and III
  - B. I and II only
  - C. I only
  - D. II only
  - E. I and III only
111. A(n) \_\_\_\_\_ is a sale of securities which typically does not require registration with the OSC.
- A. secondary market transaction
  - B. over-the-counter transaction
  - C. private placement
  - D. primary market transaction
  - E. initial public offering

112. Which of the following would be considered a secondary market transaction?
- A. Buy or sell orders to a broker for shares listed on the TSX
  - B. A, B & C
  - C. Buy or sell orders for the purchase of bonds in the over-the-counter market
  - D. Buy or sell orders to a broker for shares listed on the NYSE
  - E. A & C
113. On a typical day in Canada, the largest dollar volume of shares are traded \_\_\_\_\_.
- A. on the TSX
  - B. on the Venture Exchange
  - C. over the counter
  - D. on the NYSE
  - E. in primary markets
114. Which of the following is considered a primary market transaction?
- A. An investor buys stock in Chrysler Canada from his buddy
  - B. Chrysler Canada's stockholders sell some of their shares to Kirk Kirkorian, another investor
  - C. On September 25, 1995, 30.8 million shares of stock changed hands on the TSX
  - D. Labatt's just announced what their upcoming quarterly dividend payment will be
  - E. A firm sells stock to the public for the first time in an IPO
115. By which of the following methods do chartered banks generate income?
- I. From the spread between interest paid on deposits and interest earned on loans.
  - II. From selling life insurance through their branch networks.
  - III. From services provided to corporate clients such as bank guarantees.
- A. I and II only
  - B. II only
  - C. I and III only
  - D. I only
  - E. I, II, and III
116. All of the following are examples of Canadian financial institutions EXCEPT
- A. Chartered banks
  - B. Provincial governments
  - C. Trust companies
  - D. Mutual funds
  - E. Investment dealers
117. The size, risk, and timing of future cash flows are the key elements evaluated in the:
- A. Capital structure decision.
  - B. Analysis of working capital.
  - C. Capital budgeting process.
  - D. Cash management process.
  - E. Analysis of current assets.
118. Capital structure refers to which of the following issues?
- I. From whom should the firm borrow funds?
  - II. How much debt should the firm have in relation to its level of equity?
  - III. What level of current assets is required to maintain the firm's operational level?
  - IV. How much risk is associated with the future cash flows of a project?
- A. III only
  - B. I, II, and IV only
  - C. I, II, and III only
  - D. II only
  - E. I and II only



119. Working capital management is concerned with which balance sheet accounts?
- A. Current assets only
  - B. Current and long-term assets only
  - C. Current assets, long-term assets and current liabilities only
  - D. Long-term assets only
  - E. Current assets and current liabilities only
120. Which one of the following statements concerning a proprietorship is true?
- A. A proprietorship can be a business jointly owned by two family members.
  - B. A partial transfer of ownership is easier with a proprietorship than with a corporation.
  - C. Income from a proprietorship is taxed at a lower rate than other personal income.
  - D. A proprietor is personally responsible for 100% of the firm's liabilities.
  - E. Income from a proprietorship is taxed as a separate entity.
121. Which one of the following statements concerning a partnership is true?
- A. Under a general partnership, only the key partner is personally liable for the business debts.
  - B. Limited partners in a limited partnership should be actively involved in management decisions.
  - C. A primary advantage of a partnership is the ease of transferring ownership.
  - D. Income from a limited partnership is taxed as corporate income.
  - E. A partnership terminates at the death of any partner.
122. It is easiest to raise capital for a project under which form of business organization?
- A. Corporation
  - B. General partnership
  - C. Sole proprietorship
  - D. The form of business organization does NOT affect the ability to raise capital.
  - E. Limited partnership
123. The ultimate responsibility for a corporation rests with:
- A. The stockholders.
  - B. The Board of Directors.
  - C. The stakeholders.
  - D. The Chief Operations Officer.
  - E. The Chairman of the Board.
124. When a corporation issues additional shares of common stock, they do so:
- A. Only through the OTC market.
  - B. Only through the private markets.
  - C. Through a dealer in the secondary market.
  - D. Through a broker in the secondary market.
  - E. In the primary market.
125. Which one of the following statements is true concerning stock exchanges?
- A. The Tokyo Stock Exchange is not a very actively traded upon exchange.
  - B. The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks.
  - C. The Toronto Stock Exchange is the largest exchange in the world.
  - D. The OTC market is physically located in Toronto.
  - E. NASDAQ listed stocks trade more actively than those listed on the NYSE.
126. Which of the following statements concerning dealers are true?
- I. Dealers usually buy and sell only for themselves.
  - II. Dealers accept the risks of owning shares of stock.
  - III. The OTC market is a dealer market.
  - IV. Most debt securities trade in dealer markets.
- A. I, II, and III only
  - B. I and II only
  - C. II and IV only
  - D. I and III only
  - E. I, II, III, and IV

127. Which of the following statements concerning auction markets are true?
- I. The TSX is an auction market.
  - II. The OTC is an auction market.
  - III. The NYSE is an auction market.
  - IV. Auction markets have a physical location.
- A. I and II only
  - B. II and III only
  - C. I, II, and IV only
  - D. I, II, and III only
  - E. I, III, and IV only
128. Which one of the following statements is correct concerning the listing of stock on an exchange?
- A. Any firm can list their stock on any exchange they desire.
  - B. The TSX has the most stringent listing requirements of any Canadian stock exchange.
  - C. All exchanges have the same listing requirements.
  - D. Listing requirements are established by the Ontario Securities Commission.
  - E. The number of shareholders is NOT a listing consideration for a stock.
129. Which of the following is a disadvantage of the corporate form of ownership?
- A. Taxation
  - B. The life of the corporation
  - C. Ease of transfer of ownership
  - D. Limited liability
  - E. Ability to raise capital
130. Which of the following are capital structure decisions?
- I. Determining the amount of money to borrow in order to finance a 10-year project
  - II. Determining the number of shares of common stock to issue
  - III. Determining when a supplier should be paid
  - IV. Establishing the accounts receivable policies
- A. I and III only
  - B. III and IV only
  - C. I, III, and IV only
  - D. II and III only
  - E. I and II only
131. Which of the following are working capital decisions?
- I. Determining the level of inventory to be kept on hand
  - II. Determining if a supplier's credit terms are acceptable
  - III. Establishing the accounts receivable payment terms
  - IV. Deciding if a new project should be accepted
- A. II and IV only
  - B. III and IV only
  - C. I, II, and III only
  - D. II and III only
  - E. I and II only
132. The Treasurer:
- A. Is responsible for overseeing the data processing functions within a firm.
  - B. Reports directly to the Chief Executive Officer of a corporation.
  - C. Must file quarterly financial statements in a timely manner.
  - D. Has the responsibility for managing the cash for an organization.
  - E. Must keep current on tax laws since he/she is responsible for managing the taxes for a firm.

133. Financial managers must be concerned with which of the following aspects of cash flows?
- I. Amount of the cash flow
  - II. Timing of the cash flow
  - III. Likelihood of the cash flow being received
  - IV. Possibility that only a portion of the expected cash flow will be received
- A. II, III, and IV only
  - B. II and IV only
  - C. I, II, III, and IV
  - D. I, II, and III only
  - E. I and II only
134. Ensuring that a firm has sufficient cash available on a daily basis is part of:
- A. Business organization.
  - B. Capital budgeting.
  - C. Organizational structure.
  - D. Capital structure.
  - E. Working capital management.
135. Two of the primary advantages of a sole proprietorship are the:
- A. Ease of ownership transfer and ease of company formation.
  - B. Ease of company formation and less regulation.
  - C. Ability to raise capital and less regulation.
  - D. Ease of ownership transfer and less regulation.
  - E. Ease of company formation and limited liability.
136. In a limited partnership:
- A. The income earned is taxed like a corporation.
  - B. Only the limited partners are involved in the daily management of the firm.
  - C. Both general and limited partners are involved in the daily management of the firm.
  - D. A general partner is liable only for the amount he/she contributed to the partnership.
  - E. A limited partner is liable only for the amount he/she contributed to the partnership.
137. In a general partnership:
- A. Each partner is liable only for the portion of the total debt he/she agreed in writing to pay.
  - B. Each partner is personally responsible for all of the firm's debt.
  - C. None of the partners are personally liable for the firm's debt.
  - D. Each partner is responsible only for his/her portion of the firm's debt based on ownership percentage.
  - E. Only the general partner is liable for the firm's debt.
138. Which of the following are disadvantages of the partnership form of ownership?
- A. Double taxation and limited firm life
  - B. Personal liability and double taxation
  - C. Ease of formation and ease of ownership transfer
  - D. Ease of formation and unlimited firm life
  - E. Personal liability and limited firm life
139. Which of the following are advantages of the corporate form of ownership?
- A. Simplicity of company formation and the ability to raise capital
  - B. Ease of ownership transfer and simplicity of company formation
  - C. Limited personal liability and limited firm life
  - D. Limited personal liability and ability to raise capital
  - E. Ability to raise capital and limited firm life
140. Which one of the following actions best meets the goal of financial management?
- A. Issuing additional shares of stock to increase the total cash on hand
  - B. Delaying cash payments in order to increase the total cash on hand
  - C. Deciding a firm should be 100% equity financed
  - D. Easing the accounts receivable policies in order to increase current sales
  - E. Accepting a project that enhances the current market value of the firm's stock

141. Which one of the following actions is the best example of an agency problem?
- A. Accepting a project that enhances both management salaries and the market value of the firm's stock
  - B. Requiring stockholders approval of all management compensation decisions
  - C. Paying management bonuses based on the number of store locations opened during the year
  - D. Basing management bonuses on the attainment of specific financial goals
  - E. Paying management bonuses based on the current market value of the firm's stock
142. Which one of the following means of management compensation is designed to help eliminate the agency problem?
- A. Offering stock options
  - B. Providing annual raises
  - C. Providing a corporate jet
  - D. Providing cost of living adjustments
  - E. Increasing health care benefits
143. The primary purpose of an auction market is to:
- A. Provide electronic trading for dealers.
  - B. Match buyers with sellers.
  - C. Handle private placements of shares of stock.
  - D. Offer new shares of stock to the general public.
  - E. Provide a market place for dealers.
144. The primary purpose of capital budgeting is to:
- A. Determine the amount of cash and inventory to keep on hand.
  - B. Estimate the initial cost of a project.
  - C. Identify projects that produce cash flows that exceed the cost of the project.
  - D. Determine the risk level of a project.
  - E. Distinguish projects that have at least a five-year life from those that don't.
145. An individual who places an order to buy 1000 shares of IBM stock:
- A. Must have hired a dealer to perform this transaction.
  - B. Is most likely involved in an IPO.
  - C. Has to be listed as a private dealer.
  - D. Is most likely participating in the secondary market.
  - E. Is involved in a private placement of securities.
146. Stockholders elect:
- A. The Corporate Directors.
  - B. The President.
  - C. All senior managers.
  - D. The Chief Executive Officer.
  - E. The Chairman of the Board.
147. Which one of the following questions would most likely be the responsibility of the financial manager?
- A. Which employees should work overtime?
  - B. Where should a new store be located?
  - C. How should the firm finance a new distribution center?
  - D. What price should be charged for a new product?
  - E. Which product markets should be expanded?
148. The treasurer of a firm is most apt to report to the:
- A. president.
  - B. controller.
  - C. vice president of finance.
  - D. chief executive officer.
  - E. chief operating officer.

149. Which one of the following is a capital budgeting decision?
- A. evaluating the minimal amount of cash which the firm should keep on hand
  - B. deciding whether or not the firm should open another retail outlet
  - C. establishing the length of time for which store credit will be offered
  - D. determining which bank has the best loan terms
  - E. ascertaining the optimal level of inventory
150. Which of the following should be considered when making a capital budgeting decision?
- I. the amount of cash flows which will be required or obtained
  - II. the timing of all cash inflows and outflows
  - III. the amount of debt versus the amount of equity which should be obtained
  - IV. the risk associated with the expected cash inflows
- A. I and III only
  - B. II and IV only
  - C. II and III only
  - D. I and II only
  - E. I, II, and IV only
151. Luis has just decided that his firm should obtain \$10 million in bank financing from the Atlantic Bank and Trust and should issue \$25 million in new equity shares. Luis has just made a(n) \_\_\_\_\_ decision.
- A. capital budgeting
  - B. capital structure
  - C. working capital
  - D. operational
  - E. marketing
152. Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing \$.40 for every \$1 invested by shareholders. Mr. Webster was referring to the \_\_\_\_\_ policy of the firm.
- A. capital investment
  - B. financial planning
  - C. capital structure
  - D. working capital
  - E. capital budgeting
153. Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for:
- A. allocating manufacturing overhead.
  - B. managing long-term debt.
  - C. controlling labour costs.
  - D. overseeing accounts payable.
  - E. pricing manufactured goods.
154. Working capital management:
- A. is the oversight of a firm's long-term assets.
  - B. deals with the refinancing of the firm's debt if interest rates decline.
  - C. deals with the allocation of equipment to various jobs on a daily basis.
  - D. involves the determination of how much long-term debt should be issued.
  - E. includes the daily oversight of a firm's cash requirements.
155. Which one of the following is a correct statement concerning a sole proprietorship?
- A. The profits earned by a sole proprietorship are subject to double taxation.
  - B. The losses incurred by a sole proprietor are limited to the amount invested in the firm.
  - C. A sole proprietorship is more highly regulated than a corporation.
  - D. It may be difficult to transfer the ownership of a sole proprietorship.
  - E. A sole proprietorship is relatively difficult to form.

156. Which of the following statements related to partnerships are correct?
- I. Partnerships have unlimited lives due to the multiple form of ownership.
  - II. Partnership income is treated as personal income of the partners.
  - III. General partners have limited liability for the debts of the partnership.
  - IV. A limited partner can lose his or her investment in the partnership.
- A. I, II, and III only
  - B. II and IV only
  - C. I, II, III, and IV
  - D. I and III only
  - E. III and IV only
157. Which one of the following is a disadvantage of a partnership?
- A. growth limitations due to the inability to raise investment capital
  - B. double taxation
  - C. complexity and cost of partnership formation
  - D. the debt obligations of a limited partner
  - E. ability to raise capital as compared to a sole proprietorship
158. Which of the following are common characteristics between a sole proprietorship and a general partnership?
- I. method of taxation
  - II. limited life of business entity
  - III. personal liability
  - IV. division of net profits
- A. II and III only
  - B. I and IV only
  - C. I, II, and III only
  - D. I, III, and IV only
  - E. I and II only
159. A corporation:
- I. is subject to double taxation.
  - II. can be sued.
  - III. can have an unlimited life.
  - IV. can be a general partner in a partnership.
- A. II and III only
  - B. I and III only
  - C. I, II, III, and IV
  - D. I, II, and III only
  - E. II, III, and IV only
160. Robert Fischer is one of the owners of a firm which generated \$18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert must be a partial owner of a:
- A. limited liability company.
  - B. non-dividend paying corporation.
  - C. limited partnership.
  - D. sole proprietorship.
  - E. general partnership.

161. The articles of incorporation include which of the following items?
- I. the maximum number of shares of stock that can be issued
  - II. a description of the method to be used to elect individuals to the board of directors
  - III. the intended life of the corporation
  - IV. the name of the corporation
- A. I and III only
  - B. I, III, and IV only
  - C. II and IV only
  - D. I, II, and III only
  - E. II and III only
162. Which one of the following actions by a financial manager is most aligned with the goal of financial management?
- A. improving the efficiency of the company such that the value of the stock increases
  - B. increasing the size of a firm by acquiring a non-profitable competitor
  - C. increasing the bonuses paid to the top executives as the size of the firm increases
  - D. issuing additional shares of stock to repay all of the firm's long-term debt
  - E. increasing the sales of the firm by expanding the company's sales force
163. Which one of the following groups is the goal of financial management centered around?
- A. existing shareholders
  - B. current creditors
  - C. potential new shareholders
  - D. existing management
  - E. the CRA
164. Which one of the following best illustrates the agency problem?
- A. management reduces the risk level of the firm while maintaining a steady stock price
  - B. the company creates a management bonus program whereby managers are rewarded when the market price of the firm's stock rises
  - C. management rejects a merger which was desired by the shareholders
  - D. an employee offers a suggestion which will save the company money and reduce the stress of his job
  - E. management expands its operations overseas which is favourably received by the financial markets
165. To avoid the agency problem, managers should take actions:
- A. which add to the size of the firm's workforce.
  - B. only if they increase the market share of the firm.
  - C. which add value to the firm.
  - D. only after the president has approved them.
  - E. only if management jobs will not be jeopardized.
166. Managers who place the interest of the shareholders first, will tend to:
- A. be replaced on a routine basis.
  - B. realize minimal value from the stock options they are granted.
  - C. reward employees for unethical behavior if that behavior increases the firm's net income.
  - D. decline all offers to buy the firm.
  - E. be in greater demand and receive higher compensation.
167. Which of the following are agency costs?
- I. flying an executive overseas without a genuine business purpose for doing so
  - II. paying more than the actual market value to purchase a competitor
  - III. hiring outside auditors to monitor the firm's financial activities
  - IV. protecting management jobs which could effectively be eliminated
- A. I, II, and IV only
  - B. II and IV only
  - C. I, II, III, and IV
  - D. III and IV only
  - E. I and II only



168. Which of the following are stakeholders of the BBX grocery store?
- I. individuals and institutions who own BBX stock
  - II. a bank to whom BBX owes money
  - III. the government
  - IV. an individual who lives next door to and shops in a BBX store
- A. III and IV only
  - B. I, II, III, and IV
  - C. I, II, and IV only
  - D. I and II only
  - E. II, III, and IV only
169. Which one of the following transactions would occur in the primary market?
- A. a financial institution selling shares of OPQ stock to another financial institution
  - B. a financial institution buying shares of LM stock from an LM executive
  - C. the gifting of ABC Co. shares by a grandmother to her grandchildren
  - D. KM Co. selling new shares of stock to a financial institution
  - E. an individual selling shares of JKL stock to an existing JKL shareholder
170. NASDAQ is:
- A. an electronic market trading solely in corporate and government bonds.
  - B. the largest financial market in the U.S. in terms of the total value of listed stocks.
  - C. an electronic market which has no physical location.
  - D. a market with far fewer listings than the NYSE.
  - E. both an OTC and an auction market.
171. Which of the following questions are addressed by financial managers?
- I. How long will it take to produce a product?
  - II. How long should customers be given to pay for their credit purchases?
  - III. Should the firm borrow more money?
  - IV. Should the firm build a new factory?
- A. I, II, III, and IV
  - B. I, II, and III only
  - C. I and IV only
  - D. II, III, and IV only
  - E. II and III only
172. The treasurer and the controller of a corporation generally report to the:
- A. vice president of finance.
  - B. president.
  - C. chairman of the board.
  - D. chief executive officer.
  - E. board of directors.
173. Which one of the following statements is correct concerning the organizational structure of a corporation?
- A. The chief executive officer reports to the board of directors.
  - B. The controller reports to the president.
  - C. The chief operations officer reports to the vice president of production.
  - D. The vice president of finance reports to the chairman of the board.
  - E. The treasurer reports to the chief executive officer.
174. Which one of the following is a capital budgeting decision?
- A. determining how much debt should be borrowed from a particular lender
  - B. determining how much inventory to keep on hand
  - C. determining how much money should be kept in the checking account
  - D. deciding when to repay a long-term debt
  - E. deciding whether or not to open a new store



175. When considering a capital budgeting project the financial manager should consider:
- A. only the size of the project.
  - B. only the timing of the project cash flows.
  - C. only the size and timing of the project cash flows.
  - D. only the risk of the project cash flows.
  - E. the size, timing, and risk of the project cash flows.
176. Capital structure decisions include consideration of the:
- I. amount of long-term debt to assume.
  - II. cost of acquiring funds.
  - III. current assets and liabilities.
  - IV. net working capital.
- A. I, II, and IV only
  - B. I, III, and IV only
  - C. III and IV only
  - D. I and II only
  - E. II and III only
177. The decision of which lender to use and which type of long-term loan is best for a project is part of:
- A. capital budgeting.
  - B. a controller's duties.
  - C. the net working capital decision.
  - D. the capital structure decision.
  - E. working capital management.
178. Working capital management includes decisions concerning which of the following?
- I. accounts payable
  - II. long-term debt
  - III. accounts receivable
  - IV. inventory
- A. I and III only
  - B. I and II only
  - C. I, II, and III only
  - D. II and IV only
  - E. I, III, and IV only
179. Working capital management:
- A. ensures that long-term debt is acquired at the lowest possible cost.
  - B. balances the amount of company debt to the amount of available equity.
  - C. ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
  - D. ensures that dividends are paid to all stockholders on an annual basis.
  - E. is concerned with having sufficient funds to operate the business on a daily basis.
180. Which one of the following statements concerning a sole proprietorship is correct?
- A. The owners of a sole proprietorship share profits as established by the partnership agreement.
  - B. The owner of a sole proprietorship may be forced to sell his/her personal assets to pay company debts.
  - C. A sole proprietorship is often structured as a limited liability company.
  - D. The profits of a sole proprietorship are taxed twice.
  - E. A sole proprietorship is the least common form of business ownership.
181. Which one of the following statements is correct concerning corporations?
- A. The stockholders are usually the managers of a corporation.
  - B. The largest firms are usually corporations.
  - C. The ability of a corporation to raise capital is quite limited.
  - D. The income of a corporation is taxed as personal income of the stockholders
  - E. The majority of firms are corporations.

182. Which one of the following statements concerning a sole proprietorship is correct?
- A. The ownership of the firm is easy to transfer to another individual.
  - B. The life of the firm is limited to the life span of the owner.
  - C. The legal costs to form a sole proprietorship are quite substantial.
  - D. The company must pay separate taxes from those paid by the owner.
  - E. The owner can generally raise large sums of capital quite easily.
183. Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?
- A. Liability for firm debts limited to the capital invested
  - B. Ability to manage the day-to-day affairs of the business
  - C. Greater management responsibility
  - D. No potential financial loss
  - E. Entitlement to a larger portion of the partnership's income
184. A general partner:
- A. is the term applied only to corporations which invest in partnerships.
  - B. faces double taxation whereas a limited partner does not.
  - C. has more management responsibility than a limited partner.
  - D. has less legal liability than a limited partner.
  - E. cannot lose more than the amount of his/her equity investment.
185. A partnership:
- A. agreement defines whether the business income will be taxed like a partnership or a corporation.
  - B. is taxed the same as a corporation.
  - C. allows for easy transfer of interest from one general partner to another.
  - D. has less of an ability to raise capital than a proprietorship.
  - E. terminates at the death of any general partner.
186. Which of the following are disadvantages of a partnership?
- I. limited life of the firm
  - II. personal liability for firm debt
  - III. greater ability to raise capital than a sole proprietorship
  - IV. lack of ability to transfer partnership interest
- A. III and IV only
  - B. I and II only
  - C. I, III, and IV only
  - D. II and III only
  - E. I, II, and IV only
187. Which of the following are advantages of the corporate form of business ownership?
- I. limited liability for firm debt
  - II. double taxation
  - III. ability to raise capital
  - IV. unlimited firm life
- A. III and IV only
  - B. I, II, and III only
  - C. I, III, and IV only
  - D. II, III, and IV only
  - E. I and II only
188. Which one of the following statements is correct concerning corporations?
- A. The largest firms are usually corporations.
  - B. The majority of firms are corporations.
  - C. The income of a corporation is taxed as personal income of the stockholders.
  - D. The stockholders are usually the managers of a corporation.
  - E. The ability of a corporation to raise capital is quite limited.

189. Which one of the following statements is correct?
- A. Both sole proprietorships and partnerships are taxed in a similar fashion.
  - B. All types of business formations have limited lives.
  - C. Partnerships are the most complicated type of business to form.
  - D. Both partnerships and corporations incur double taxation.
  - E. Both partnerships and corporations have bylaws.
190. The articles of incorporation:
- A. set forth the rules by which the corporation regulates its existence.
  - B. are amended annually by the company stockholders.
  - C. can be used to remove company management.
  - D. set forth the number of shares of stock that can be issued.
  - E. can set forth the conditions under which the firm can avoid double taxation.
191. The bylaws:
- A. set forth the procedure by which the stockholders elect the senior managers of the firm.
  - B. establish the name of the corporation.
  - C. mandate the procedure for electing corporate directors.
  - D. are rules which apply only to limited liability companies.
  - E. set forth the purpose of the firm.
192. Which one of the following business types is best suited to raising large amounts of capital?
- A. corporation
  - B. limited partnership
  - C. limited liability company
  - D. sole proprietorship
  - E. general partnership
193. Which type of business organization has all the respective rights and privileges of a legal person?
- A. general partnership
  - B. corporation
  - C. limited partnership
  - D. limited liability company
  - E. sole proprietorship
194. Financial managers should strive to maximize the current value per share of the existing stock because:
- A. doing so means the firm is growing in size faster than its competitors.
  - B. they have been hired for the purpose of representing the interest of the current shareholders.
  - C. doing so increases the salaries of all the employees.
  - D. the managers often receive shares of stock as part of their compensation.
  - E. doing so guarantees the company will grow in size at the maximum possible rate.
195. The decisions made by financial managers should all be ones which increase the:
- A. size of the firm.
  - B. marketability of the managers.
  - C. financial distress of the firm.
  - D. growth rate of the firm.
  - E. market value of the existing owners' equity.
196. Which one of the following actions by a financial manager creates an agency problem?
- A. agreeing to pay bonuses based on the market value of the company stock
  - B. agreeing to expand the company at the expense of stockholders' value
  - C. increasing current costs in order to increase the market value of the stockholders' equity
  - D. refusing to lower selling prices if doing so will reduce the net profits
  - E. refusing to borrow money when doing so will create losses for the firm

197. Which of the following help convince managers to work in the best interest of the stockholders?
- I. compensation based on the value of the stock
  - II. stock option plans
  - III. threat of a company takeover
  - IV. threat of a proxy fight
- A. I, II, III, and IV  
B. I, II, and III only  
C. III and IV only  
D. I and II only  
E. I, III, and IV only
198. Which form of business structure faces the greatest agency problems?
- A. limited liability company  
B. sole proprietorship  
C. limited partnership  
D. corporation  
E. general partnership
199. Which of the following are agency costs?
- I. foregoing an investment opportunity which would add to the market value of the owner's equity
  - II. paying a dividend to each of the existing shareholders
  - III. purchasing new equipment which increases the value of each share of stock
  - IV. hiring outside auditors to verify the accuracy of the company financial statements
- A. II and III only  
B. II and IV only  
C. I, II, and IV only  
D. I and IV only  
E. I and III only
200. Which of the following represent cash outflows from a firm?
- I. issuance of securities
  - II. payment of dividends
  - III. new loan proceeds
  - IV. payment of government taxes
- A. II and IV only  
B. I, II, and IV only  
C. II, III, and IV only  
D. I and IV only  
E. I and III only
201. Which one of the following is a primary market transaction?
- A. a bank selling shares of a medical firm to an individual  
B. a dealer buying newly issued shares of stock from a corporation  
C. a dealer selling shares of stock to an individual investor  
D. a sole proprietor buying shares of stock from an individual investor  
E. an individual investor selling shares of stock to another individual
202. Which of the following statements concerning auction markets is (are) correct?
- I. NASDAQ is an auction market.
  - II. The TSX is an auction market.
  - III. All trades involve a dealer in an auction market.
  - IV. An auction market is called an over-the-counter market.
- A. II and IV only  
B. II and III only  
C. II only  
D. I only  
E. I and III only

203. Which one of the following statements concerning stock exchanges is correct?
- A. Some large companies are listed on NASDAQ.
  - B. The exchange with the strictest listing requirements is NASDAQ.
  - C. The TSX is primarily a dealer market.
  - D. Most debt securities are traded on the TSX.
  - E. The NYSE has more listed stocks than NASDAQ.
204. Dealer markets:
- A. are reserved strictly for trading debt securities.
  - B. list only the securities of the largest firms.
  - C. only exist outside of Canada.
  - D. are called over-the-counter markets.
  - E. include NASDAQ and the New York Stock Exchange.
205. Which one of the following statements is correct concerning the TSX?
- A. A firm is expected to have a market value for its publicly held shares of at least \$2 million to be listed on the TSX.
  - B. Any corporation desiring to be listed on the TSX can do so.
  - C. The TSX is the second largest stock exchange in the world.
  - D. The TSX is an over-the-counter exchange functioning as both a primary and a secondary market.
  - E. The TSX is the largest dealer market for listed securities in Canada.
206. Which of the following statements concerning NASDAQ are correct?
- I. Most smaller firms are listed on NASDAQ rather than on the NYSE.
  - II. NASDAQ is an electronic market.
  - III. NASDAQ is an auction market.
  - IV. NASDAQ is an OTC market.
- A. I and III only
  - B. I and II only
  - C. I, II, III, and IV
  - D. II and IV only
  - E. I, II, and IV only
207. List and briefly describe the three basic questions addressed by a financial manager.
208. Why is the corporate form of business organization considered to be more important than sole proprietorships or partnerships?

- 209.If the corporate form of business organization has so many advantages over the corporate form, why is it so common for small businesses to initially be formed as sole proprietorships?
- 210.What should be the goal of the financial manager of a corporation? Why?
- 211.Do you think agency problems arise in sole proprietorships and/or partnerships?
- 212.Assume for a moment that the stockholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for common stock?
- 213.Suppose you own 100 shares of IBM stock which you intend to sell today. Since you will sell it in the secondary market, IBM will receive no direct cash flows as a consequence of your sale. Why, then, should IBM's management care about the price you get for your shares?

214. One thing lenders sometimes require when loaning money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here?
215. Why might a corporation wish to list its shares on a national exchange such as the TSX as opposed to a regional exchange? How about being traded OTC?
216. Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues.
217. Explain the cash flow pattern between a firm and the financial markets.
218. Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal.

219. Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type.

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



# 1 Key

1. When evaluating a project in which a firm might invest, the size but not the timing of the cash flows is important.  
**FALSE**  

*LO1: Cash Flows  
Level: Basic  
Ross - Chapter 001 #1  
Type: Concepts*
2. In capital budgeting, the financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.  
**TRUE**  

*LO1: Financial Management  
Level: Basic  
Ross - Chapter 001 #2  
Type: Concepts*
3. Maximization of the current earnings of the firm is the main goal of the financial manager.  
**FALSE**  

*LO3: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #3  
Type: Concepts*
4. The primary goal of a financial manager should be to maximize the value of shares issued to new investors in the corporation.  
**FALSE**  

*LO3: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #4  
Type: Concepts*
5. The primary goal of financial management is to minimize the corporate tax liability.  
**FALSE**  

*LO3: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #5  
Type: Concepts*
6. When owners are managers (such as in a sole proprietorship), a firm will have agency costs.  
**FALSE**  

*LO4: Agency Theory  
Level: Intermediate  
Ross - Chapter 001 #6  
Type: Concepts*
7. IBEC Inc. of Toronto spends approximately \$2 million annually to hire auditors to go over the firm's financial statements. This is an example of an indirect agency cost.  
**FALSE**  

*LO4: Agency Costs  
Level: Intermediate  
Ross - Chapter 001 #7  
Type: Concepts*
8. The board of directors has the power to act on behalf of the shareholders to hire and fire the operating management of the firm. In a legal sense, the directors are "principals" and the shareholders are "agents".  
**FALSE**  

*LO3: Financial Management  
Level: Basic  
Ross - Chapter 001 #8  
Type: Concepts*

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

*LO1: Corporate Controller  
Level: Basic  
Ross - Chapter 001 #9  
Type: Definitions*

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

*LO1: Corporate Treasurer  
Level: Basic  
Ross - Chapter 001 #10  
Type: Definitions*

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

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #11  
Type: Definitions*

12. The mixture of debt and equity used by the firm to finance its operations is called:  
**A.** capital structure.  
B. financial depreciation.  
C. working capital management.  
D. capital budgeting.  
E. agency cost analysis.

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #12  
Type: Definitions*

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

*LO3: Working Capital  
Level: Basic  
Ross - Chapter 001 #13  
Type: Definitions*

14. A business owned by a single individual is called a(n):
- A. Partnership.
  - B. Closed receivership.
  - C. Sole proprietorship.**
  - D. Corporation.
  - E. Open structure.

*LO2: Sole Proprietorship  
Level: Basic  
Ross - Chapter 001 #14  
Type: Definitions*

15. A business formed by two or more individuals or entities is called a(n):
- A. Open structure.
  - B. Sole proprietorship.
  - C. Corporation.
  - D. Partnership.**
  - E. Closed receivership.

*LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #15  
Type: Definitions*

16. The division of profits and losses between the members of a partnership is formalized in the:
- A. Indenture contract.
  - B. Indemnity clause.
  - C. Partnership agreement.**
  - D. Statement of purpose.
  - E. Group charter.

*LO2: Partnership Agreement  
Level: Basic  
Ross - Chapter 001 #16  
Type: Definitions*

17. A business created as a distinct legal entity composed of one or more individuals or entities is called a(n):
- A. Sole proprietorship.
  - B. Partnership.
  - C. Closed receivership.
  - D. Corporation.**
  - E. Open structure.

*LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #17  
Type: Definitions*

18. The document that legally establishes domicile for a corporation is called the:
- A. Bylaws.
  - B. Partnership agreement.
  - C. Articles of incorporation.**
  - D. Indenture contract.
  - E. Amended homestead filing.

*LO2: Articles of Incorporation  
Level: Basic  
Ross - Chapter 001 #18  
Type: Definitions*

19. The rules by which corporations govern themselves are called:
- A. Indenture provisions.
  - B. Partnership agreements.
  - C. Indemnity provisions.
  - D. Bylaws.**
  - E. Articles of incorporation.

*LO2: Bylaws  
Level: Basic  
Ross - Chapter 001 #19  
Type: Definitions*

20. The primary goal of financial management is to:
- A. Maintain steady earnings growth.
  - B. Maximize current sales.
  - C. Minimize operational costs.
  - D.** Maximize the current value per share of the existing stock.
  - E. Avoid financial distress.

*LO3: Financial Management Goal  
Level: Basic  
Ross - Chapter 001 #20  
Type: Definitions*

21. The possibility of conflict of interest between the stockholders and management of the firm is called:
- A. The shareholders' conundrum.
  - B.** The agency problem.
  - C. Corporate breakdown.
  - D. Legal liability.
  - E. Corporate activism.

*LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #21  
Type: Definitions*

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

*LO4: Agency Costs  
Level: Basic  
Ross - Chapter 001 #22  
Type: Definitions*

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

*LO4: Stakeholders  
Level: Basic  
Ross - Chapter 001 #23  
Type: Definitions*

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

*LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #24  
Type: Definitions*

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

*LO5: Secondary Market  
Level: Basic  
Ross - Chapter 001 #25  
Type: Definitions*

26. A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):  
**A.** Dealer market.  
B. Auction market.  
C. Primary market.  
D. Secondary market.  
E. Liquidation market.

*LO5: Dealer Market  
Level: Basic  
Ross - Chapter 001 #26  
Type: Definitions*

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

*LO5: Auction Market  
Level: Basic  
Ross - Chapter 001 #27  
Type: Definitions*

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

*LO5: Markets  
Level: Basic  
Ross - Chapter 001 #28  
Type: Definitions*

29. The Corporate Treasurer is in charge of:  
A. Tax management.  
B. Cost accounting.  
C. Data processing.  
D. Financial accounting.  
**E.** Credit management.

*LO1: Treasurer  
Level: Basic  
Ross - Chapter 001 #29  
Type: Definitions*

30. The Chief Financial Officer of a corporation is the:  
A. Corporate Treasurer.  
B. Chairman of the Board.  
C. Corporate Controller.  
D. President.  
**E.** Vice President of Finance.

*LO1: Chief Financial Officer  
Level: Basic  
Ross - Chapter 001 #30  
Type: Definitions*

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

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #31  
Type: Definitions*

32. Capital structure refers to:
- A. The management of long-term investments.
  - B. The accounts receivable policy.
  - C. The amount of cash on hand.
  - D. The amount of inventory held.
  - E.** The mixture of debt and equity.

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #32  
Type: Definitions*

33. Working capital management refers to:
- A. The mixture of debt and equity.
  - B. The types of stock issued.
  - C. The amount of long-term debt.
  - D.** The levels of cash and inventory held.
  - E. The types of long-term investments made.

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #33  
Type: Definitions*

34. A business that is a distinct legal entity is a:
- A.** Corporation.
  - B. General partnership.
  - C. Proprietorship.
  - D. Limited partnership.
  - E. Partnership with only two partners.

*LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #34  
Type: Definitions*

35. The primary goal of financial management is to maximize the:
- A. Book value of the firm.
  - B. Growth rate of a firm.
  - C.** Current value of each share of outstanding stock.
  - D. Number of shares of common stock outstanding.
  - E. Compensation of the corporate officers.

*LO3: Goal of Financial Management  
Level: Basic  
Ross - Chapter 001 #35  
Type: Definitions*

36. A proxy fight is:
- A. A normal part of a corporate merger.
  - B. Used as a means of issuing additional shares of common stock.
  - C. Used as a means of increasing the amount of dividends paid per share.
  - D. A means used to decrease the number of outstanding shares of stock.
  - E.** A method used by stockholders to replace corporate management.

*LO4: Proxy Fight  
Level: Basic  
Ross - Chapter 001 #36  
Type: Definitions*

37. Suppliers, customers, and employees of a corporation are called:
- A. Stockholders.
  - B. Shareholders.
  - C. Debtors.
  - D.** Stakeholders.
  - E. Partners.

LO5: Stakeholder  
Level: Basic  
Ross - Chapter 001 #37  
Type: Definitions

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

LO2: Proprietorship  
Level: Basic  
Ross - Chapter 001 #38  
Type: Definitions

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

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #39  
Type: Definitions

40. The primary market includes:
- A. The sale of stock by a shareholder in the OTC market.
  - B.** The sale of new securities by a corporation on an exchange.
  - C. The sale of stock by a shareholder in the open market.
  - D. The sale of stock by a shareholder in an auction market.
  - E. The purchase and sale of shares of stock between two shareholders.

LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #40  
Type: Definitions

41. Stocks that trade on an exchange are referred to as:
- A. SEC stocks.
  - B.** Listed stocks.
  - C. Primary stocks.
  - D. Privately held stocks.
  - E. Optioned stocks.

LO5: Listing  
Level: Basic  
Ross - Chapter 001 #41  
Type: Definitions

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

LO5: Dealer Market  
Level: Basic  
Ross - Chapter 001 #42  
Type: Definitions

43. Tasks related to tax management, cost accounting, financial accounting, and data processing are the responsibility of which corporate officer?
- A. The Corporate Treasurer
  - B. The Chairman of the Board
  - C. The Corporate Controller**
  - D. The Vice President of Production
  - E. The Board of Directors

*LO1: Financial Management*

*Level: Basic*

*Ross - Chapter 001 #43*

*Type: Concepts*

44. The controller can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.
- A. production functions
  - B. cash balances
  - C. financial planning
  - D. accounting functions**
  - E. capital expenditures

*LO1: Controller*

*Level: Basic*

*Ross - Chapter 001 #44*

*Type: Definitions*

45. The treasurer can be defined as the person who is generally responsible for overseeing the \_\_\_\_\_ of a firm.
- A. data processing functions
  - B. financial planning**
  - C. tax matters
  - D. financial accounting
  - E. cost accounting

*LO1: Treasurer*

*Level: Basic*

*Ross - Chapter 001 #45*

*Type: Definitions*

46. Capital budgeting is defined as the:
- A. management of a firm's net working capital.
  - B. management of a firm's long-term investments.**
  - C. determination of the total amount of money which a firm should borrow.
  - D. mix of debt and equity used by a firm to finance its operations.
  - E. process of determining the optimal types and amounts of inventory to keep on hand.

*LO1: Capital Budgeting*

*Level: Basic*

*Ross - Chapter 001 #46*

*Type: Definitions*

47. A firm's capital structure is defined:
- A. by the types of fixed assets the firm owns.
  - B. as the combination of debt and equity used to finance the firm's operations.**
  - C. by the nature of the product or service provided.
  - D. as the mix of short-term and long-term assets owned by the firm.
  - E. as the amount of fixed assets needed to support every \$1 in sales.

*LO1: Capital Structure*

*Level: Basic*

*Ross - Chapter 001 #47*

*Type: Definitions*



48. Working capital management refers specifically to:
- A. the oversight of a firm's current accounts.
  - B. the daily use of a firm's fixed assets to generate revenue.
  - C. the utilization of a firm's assets on a daily basis.
  - D. obtaining the necessary funds to finance a firm's daily activities.
  - E. the management of a firm's loan accounts from financial institutions.

LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #48  
Type: Definitions

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

LO2: Sole Proprietorship  
Level: Basic  
Ross - Chapter 001 #49  
Type: Definitions

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

LO2: General Partnership  
Level: Basic  
Ross - Chapter 001 #50  
Type: Definitions

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

LO2: Limited Partnership  
Level: Basic  
Ross - Chapter 001 #51  
Type: Definitions

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

LO2: Bylaws  
Level: Basic  
Ross - Chapter 001 #52  
Type: Definitions

53. The agency problem is best defined as a conflict of interest between a firm's:
- A. stockholders and the firm's managers.
  - B. stockholders and the firm's debtors.
  - C. various managers.
  - D. managers and the firm's employees.
  - E. various employees.

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #53  
Type: Definitions

54. The primary goal of financial management is defined as the:
- A. minimization of the outstanding debt owed by the firm to third parties.
  - B.** maximization of the current value per share of the outstanding stock.
  - C. maintenance of a steady stream of dividends to the existing shareholders.
  - D. minimization of the risks associated with company ownership.
  - E. maximization of the current profits per share of the firm.

LO3: Financial Management Goal  
Level: Basic  
Ross - Chapter 001 #54  
Type: Definitions

55. An agency problem is said to exist when there is a conflict of interest between \_\_\_\_\_ and \_\_\_\_\_.
- A. an agent; his or her representative
  - B. one shareholder; another shareholder
  - C. a shareholder; a stakeholder
  - D. a broker; a dealer
  - E.** a principal; his or her agent

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #55  
Type: Definitions

56. The primary market is defined as the market:
- A. mechanism by which a sale of a financial instrument between two shareholders is conducted.
  - B. where stocks and bonds are exchanged between dealers.
  - C. commonly known as the over-the-counter market.
  - D. operated by brokers for the benefit of shareholders.
  - E.** wherein the original sale of securities by the issuer to the general public occurs.

LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #56  
Type: Definitions

57. The secondary market is the market wherein:
- A.** shareholders buy from and sell to other shareholders.
  - B. the security issuer is the seller and the buyer is a member of the general public.
  - C. one issuer exchanges securities directly with another issuer.
  - D. the government is either the buyer or the seller of the security.
  - E. the security issuer is the buyer and the seller is a member of the general public.

LO5: Secondary Market  
Level: Basic  
Ross - Chapter 001 #57  
Type: Definitions

58. A dealer is a person who:
- A. buys and sells but does not own the commodity being bought or sold.
  - B.** buys and sells for themselves, at their own risk.
  - C. conducts a trade on behalf of another individual.
  - D. buys and sells on behalf of the original issuer of the commodity being bought or sold.
  - E. buys and sells strictly on the trading floor of an exchange.

LO5: Dealer  
Level: Basic  
Ross - Chapter 001 #58  
Type: Definitions

59. The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and data processing functions is the:
- A. chief executive officer.
  - B. chairman of the board.
  - C.** controller.
  - D. director.
  - E. treasurer.

LO1: Controller  
Level: Basic  
Ross - Chapter 001 #59  
Type: Definitions

60. The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:
- A. controller.
  - B. chief operations officer.
  - C. chairman of the board.
  - D.** treasurer.
  - E. director.

*LO1: Treasurer  
Level: Basic  
Ross - Chapter 001 #60  
Type: Definitions*

61. The process of planning and managing a firm's long-term investments is called:
- A. agency cost analysis.
  - B.** capital budgeting.
  - C. working capital management.
  - D. capital structure.
  - E. financial depreciation.

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #61  
Type: Definitions*

62. The mixture of debt and equity used by a firm to finance its operations is called:
- A. working capital management.
  - B. financial depreciation.
  - C.** capital structure.
  - D. cost analysis.
  - E. capital budgeting.

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #62  
Type: Definitions*

63. The management of a firm's short-term assets and liabilities is called:
- A. capital structure.
  - B. equity management.
  - C. debt management.
  - D.** working capital management.
  - E. capital budgeting.

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #63  
Type: Definitions*

64. Which one of the following correctly defines the chain of command in a typical corporate organizational structure?
- A.** The chief executive officer reports to the board of directors.
  - B. The vice president of finance reports to the chairman of the board.
  - C. The chief operations officer reports to the vice president of production.
  - D. The controller reports to the president.
  - E. The treasurer reports to the chief executive officer.

*LO2: Organizational Structure  
Level: Basic  
Ross - Chapter 001 #64  
Type: Concept*

65. A business formed by two or more individuals who each have unlimited liability for business debts is called a:
- A. corporation.
  - B. general partnership.**
  - C. sole proprietorship.
  - D. limited partnership.
  - E. limited liability company.

*LO2: General Partnership  
Level: Basic  
Ross - Chapter 001 #65  
Type: Definitions*

66. The division of profits and losses among the members of a partnership is formalized in the:
- A. indenture contract.
  - B. partnership agreement.**
  - C. indemnity clause.
  - D. group charter.
  - E. statement of purpose.

*LO2: Partnership Agreement  
Level: Basic  
Ross - Chapter 001 #66  
Type: Definitions*

67. A business created as a distinct legal entity composed of one or more individuals or entities is called a:
- A. limited partnership.
  - B. unlimited liability company.
  - C. general partnership.
  - D. corporation.**
  - E. sole proprietorship.

*LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #67  
Type: Definitions*

68. The corporate document that sets forth the business purpose of a firm is the:
- A. provincial tax agreement.
  - B. indenture contract.
  - C. articles of incorporation.**
  - D. corporate bylaws.
  - E. corporate charter.

*LO2: Articles of Incorporation  
Level: Basic  
Ross - Chapter 001 #68  
Type: Definitions*

69. Capital structure decisions include which of the following?
- A. determining the number of shares of stock to issue**
  - B. evaluating the size of inventory to be kept on hand
  - C. allocating funds to the various divisions within the firm
  - D. evaluating the customer credit policy
  - E. determining whether the firm should purchase or lease some equipment

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #69  
Type: Concept*

70. The decision to issue debt rather than additional shares of stock is an example of:
- A. a net working capital decision.
  - B. capital budgeting.
  - C.** the capital structure decision
  - D. working capital management.
  - E. a controller's duties.

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #70  
Type: Concept*

71. A conflict of interest between the stockholders and management of a firm is called:
- A. stockholders' liability.
  - B. corporate activism.
  - C. legal liability.
  - D.** the agency problem.
  - E. corporate breakdown.

*LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #71  
Type: Definitions*

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

*LO5: Stakeholders  
Level: Basic  
Ross - Chapter 001 #72  
Type: Definitions*

73. The original sale of securities by governments and corporations to the general public occurs in the:
- A. proprietary market.
  - B. liquidation market.
  - C. secondary market.
  - D.** primary market.
  - E. private placement market.

*LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #73  
Type: Definitions*

74. When one shareholder sells stock directly to another the transaction is said to occur in the:
- A. TSX market.
  - B. dealer market.
  - C. primary market.
  - D.** secondary market.
  - E. OTC market.

*LO5: Secondary Market  
Level: Basic  
Ross - Chapter 001 #74  
Type: Definitions*

75. A market where dealers buy and sell securities for themselves, at their own risk, is called a(n):
- A. liquidation market.
  - B. auction market.
  - C. secondary market.
  - D. primary market.
  - E. dealer market.**

LO5: Dealer Market  
Level: Basic  
Ross - Chapter 001 #75  
Type: Definitions

76. A market where trading takes place directly between buyers and sellers is called a(n):
- A. dealer market.
  - B. OTC market.
  - C. primary market.
  - D. liquidation market.
  - E. auction market.**

LO5: Auction Market  
Level: Basic  
Ross - Chapter 001 #76  
Type: Definitions

77. Which of the following is an answer to "What are the duties of a financial manager?"
- I. Deciding how much interest to pay the holders of the corporation's bonds.
  - II. Deciding the mix of long-term debt and equity.
  - III. Deciding which projects a firm should undertake.
  - IV. Deciding how much short-term debt to use.
- A. II, III, and IV only**
  - B. I and II only
  - C. I, II, and III only
  - D. I, II, III, and IV
  - E. II and III only

LO1: Financial Manager  
Level: Intermediate  
Ross - Chapter 001 #77  
Type: Concepts

78. A financial manager is responsible for deciding whether or not new manufacturing equipment should be purchased to replace existing equipment. The new equipment would reduce labour expenses and would allow the firm to reduce its investment in inventory. Which of the financial management areas would be involved in the decision process?
- I. Capital budgeting
  - II. Capital structure management
  - III. Working capital management
- A. I and II only
  - B. I, II, and III
  - C. II and III only
  - D. I only
  - E. I and III only**

LO1: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #78  
Type: Concepts

79. According to the balance sheet model of the firm, corporate finance may be thought of as the analysis of three primary subject areas. Which of the following correctly lists these areas?
- A. Capital budgeting, capital structure, net working capital**
  - B. Capital budgeting, capital spending, net working capital
  - C. Capital budgeting, capital structure, capital spending
  - D. Capital structure, net working capital, capital rationing
  - E. Capital structure, capital budgeting, security analysis

LO1: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #79  
Type: Concepts

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

*LO3: Corporate Finance  
Level: Intermediate  
Ross - Chapter 001 #80  
Type: Concepts*

81. In the evaluation of cash flow in a capital budgeting decision, which of the following must be considered?
- I. The size of the cash flow.
  - II. The timing of the cash flow.
  - III. The risk of the cash flow.
- A. II and III only
  - B. I only
  - C.** I, II, III
  - D. I and II only
  - E. II only

*LO1: Capital Budgeting  
Level: Intermediate  
Ross - Chapter 001 #81  
Type: Concepts*

82. Which of the following combinations of attributes would make a capital expenditure project desirable to a financial manager?
- I. The project is worth more to the firm than the cost to acquire it.
  - II. The value of the cash flow generated by the project exceeds the project's cost.
  - III. The project's cash flows have acceptable levels of risk and size, but not timing.
- A. I and III only
  - B. II and III only
  - C.** I and II only
  - D. I, II, and III
  - E. I only

*LO1: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #82  
Type: Concepts*

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

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #83  
Type: Concepts*

84. A financial manager is responsible for determining the firm's appropriate level of inventory. Which of the financial management areas addresses this decision?
- I. Capital budgeting
  - II. Capital structure management
  - III. Working capital management
- A. I only
  - B. II only
  - C. I, II, and III
  - D. I and II only
  - E. III only**

*LO3: Financial Management  
Level: Basic  
Ross - Chapter 001 #84  
Type: Concepts*

85. Which of the following statements is/are false concerning partnerships?
- I. Limited partners are responsible for all debts of the partnership.
  - II. Limited partners generally do not manage the partnership.
  - III. In a limited partnership, all partners share equally in the gains or losses.
- A. II only
  - B. I and III only
  - C. I only**
  - D. I and II only
  - E. I, II, and III

*LO2: Business Organizations  
Level: Intermediate  
Ross - Chapter 001 #85  
Type: Concepts*

86. Which of the following is an advantage of ownership of a corporation compared to that of a sole proprietorship?
- A. Dividends received by the corporation's shareholders are tax-exempt.
  - B. The corporation has an unlimited life.**
  - C. The owners of the corporation have unlimited liability for the firm's debts.
  - D. It is the simplest to start.
  - E. It is more difficult to transfer ownership in a corporation.

*LO2: Business Organizations  
Level: Intermediate  
Ross - Chapter 001 #86  
Type: Concepts*

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

*LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #87  
Type: Concepts*



88. Sue Folker wants to start a new business decommissioning nuclear warheads and reactors. The work will involve significant hazards, and Sue is concerned about protecting her personal wealth from any losses the business might incur. If she is to be the majority owner of the business how should she structure it?
- A.** As a corporation
  - B. As a general partnership
  - C. As a limited partnership
  - D. As a real estate investment trust
  - E. As a sole proprietorship

LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #88  
Type: Concepts

89. Limited liability may be a characteristic of each of the following form(s) of organization EXCEPT a \_\_\_\_\_.
- A.** sole proprietorship
  - B. corporation
  - C. limited partnership
  - D. partnership
  - E. limited liability company

LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #89  
Type: Concepts

90. Which of the following is a true statement concerning a general partnership?
- I. Partners are not responsible for the debts of the partnership.
  - II. Partners generally do not manage the partnership.
  - III. The income of a partnership is taxed at the partners' income tax rate.
- A. I, II, and III
  - B. I and II only
  - C.** III only
  - D. I and III only
  - E. I only

LO2: Business Organizations  
Level: Intermediate  
Ross - Chapter 001 #90  
Type: Concepts

91. The death of the firm's owner(s) does NOT effectively dissolve which type(s) of organization?
- I. Sole proprietorship
  - II. Partnership
  - III. Corporation
- A. I and III only
  - B. II and III only
  - C. II only
  - D.** III only
  - E. I only

LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #91  
Type: Concepts

92. Which of the following is considered a benefit of the corporate form of organization?
- I. Ease of the transfer of ownership
  - II. Limited life
  - III. Double taxation
- A. II only  
B. I and III only  
C. I and II only  
**D.** I only  
E. I, II, and III

LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #92  
Type: Concepts

93. A \_\_\_\_\_ can lose, at most, what she has already invested in a firm.
- I. common stockholder
  - II. limited partner
  - III. general partner
  - IV. sole proprietor
- A. I, II, and IV only  
B. I only  
C. II, III, and IV only  
D. II and III only  
**E.** I and II only

LO2: Business Organizations  
Level: Intermediate  
Ross - Chapter 001 #93  
Type: Concepts

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

LO2: Double Taxation  
Level: Basic  
Ross - Chapter 001 #94  
Type: Concepts

95. Which of the following is the BEST description of the goal of the financial manager in a corporation where shares are publicly traded?
- A. Maximize profits.
  - B.** Maximize the current value per share of the existing stock.
  - C. Maximize sales.
  - D. Avoid financial distress.
  - E. Maintain steady earnings growth.

LO3: Financial Management Goal  
Level: Basic  
Ross - Chapter 001 #95  
Type: Concepts

96. A financial manager of a corporation is considering different operating strategies for the coming year. From a financial management standpoint, which of the following would be her optimal strategy?
- A. Undertake the plan that would reduce the overall riskiness of the firm.
  - B. Undertake the plan that would maximize her personal wealth.
  - C. Undertake the plan that would lead to the most stable stock price for the year.
  - D.** Undertake the plan that would maximize the current stock price.
  - E. Undertake the plan that would result in the largest profits for the year.

*LO3: Financial Management  
Level: Basic  
Ross - Chapter 001 #96  
Type: Concepts*

97. The total market value of the firm's equity is determined by \_\_\_\_\_.
- A. the corporate treasurer
  - B.** the firm's stockholders
  - C. the firm's stakeholders
  - D. the firm's financial manager
  - E. regulatory authorities

*LO5: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #97  
Type: Concepts*

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

*LO4: Agency Costs  
Level: Intermediate  
Ross - Chapter 001 #98  
Type: Concepts*

99. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate the purchase price. Identify the parties to this transaction.
- A. Ann is the principal and Ted is the agent.
  - B. Ted is the principal and Ann is the agent.
  - C. Mary is the agent while Ted and Ann together are principals.
  - D.** Ann is the principal and Mary is the agent.
  - E. Mary is the principal and Ann is the agent.

*LO4: Agency Theory  
Level: Basic  
Ross - Chapter 001 #99  
Type: Concepts*

100. The Board of Directors of Beeline, Inc. has decided to base the salary of its financial manager entirely upon the market share of the firm. Accordingly,
- A. the firm will incur some agency costs if the manager acts to maximize market share.
  - B. this arrangement may be unnecessary, since the goal of the firm is to maximize earnings for shareholders, and that is most likely accomplished through larger market share.
  - C.** the manager may not act to maximize the current value of the firm's stock, resulting in agency costs for the firm's stockholders.
  - D. the firm may incur some agency costs since the manager will be focused on the market share of the firm rather than acting to maximize earnings.
  - E. the financial manager will always act in the best interest of the shareholders since all agency costs have been eliminated through salary incentives.

*LO4: Agency Costs  
Level: Challenge  
Ross - Chapter 001 #100  
Type: Concepts*

101. Which of the following is/are correct regarding agency costs?
- I. Indirect costs occur when managers, acting to minimize the risk of the firm, forego investments shareholders would prefer they take.
  - II. Direct costs occur when shareholders must incur costs to monitor the manager's actions.
  - III. Direct costs occur when managers buy assets considered unnecessary by the firm's owners.
- A. II only
  - B. I and II only
  - C. II and III only
  - D. I, II, and III**
  - E. I only

LO4: Agency Costs  
Level: Challenge  
Ross - Chapter 001 #101  
Type: Concepts

102. Of the following, which statement regarding agency costs is false?
- A. If agency costs get too high in the eyes of shareholders, they can begin a proxy fight to replace existing management.
  - B. An agency problem exists when there is a conflict of interest between the stockholders and management of a firm.
  - C. A corporate expenditure that benefits stockholders but harms management is an agency cost.**
  - D. An agency problem exists when there is a conflict of interest between a principal and an agent.
  - E. An indirect agency cost occurs when firm management avoids risky projects that would favourably affect the stock price because the managers are worried about keeping their jobs.

LO4: Agency Costs  
Level: Intermediate  
Ross - Chapter 001 #102  
Type: Concepts

103. Which of the following help ensure managers act in the best interest of owners?
- I. A compensation package for managers that ties their salary to the firm's share price.
  - II. Managers are promoted only if the firm prospers.
  - III. The threat that if the firm does poorly, shareholders will use a proxy fight to replace the existing management.
  - IV. There is a high degree of likelihood the firm will become a takeover candidate if the firm performs poorly.
- A. I, III, and IV only
  - B. I and III only
  - C. I, II, III, and IV**
  - D. I and II only
  - E. II and III only

LO4: Agency Theory  
Level: Challenge  
Ross - Chapter 001 #103  
Type: Concepts

104. Which of the following is a true statement concerning the economics of ethical decision-making?
- I. The higher the probability of detection, the more likely that one will cheat.
  - II. The higher the sanctions imposed if detected, the less likely one is to cheat.
  - III. The expected costs of unethical behaviour are lower if information about cheating is rapidly and widely distributed.
- A. I only
  - B. II only**
  - C. I and II only
  - D. I, II, and III
  - E. I and III only

LO3: Financial Management  
Level: Challenge  
Ross - Chapter 001 #104  
Type: Concepts

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

LO5: Stock Exchanges  
Level: Basic  
Ross - Chapter 001 #105  
Type: Concepts

106. You are interested in purchasing 100 shares of stock in one of the largest corporations in the Canada. You would most likely purchase the shares in \_\_\_\_\_.
- A. a secondary market operated as an auction market**
  - B. a secondary market operated as a money market
  - C. a primary market operated as a dealer market
  - D. a primary market operated as an auction market
  - E. a secondary market operated as a dealer market

LO5: Markets  
Level: Basic  
Ross - Chapter 001 #106  
Type: Concepts

107. Which of the following does NOT correctly finish this sentence: In Canada, \_\_\_\_\_.
- A. the OTC market does not have a central location
  - B. over-the-counter markets are operated as auction markets**
  - C. new issues of securities occur in primary markets
  - D. auction markets have a physical location
  - E. financial markets function as both primary and secondary markets for debt and equity securities

LO5: Markets  
Level: Intermediate  
Ross - Chapter 001 #107  
Type: Concepts

108. Which of the following is NOT a general criteria that must be met in order for a firm to be listed on the TSX?
- A. The firm must have a minimum number of shareholders owning at least 100 shares.
  - B. The firm must have a minimum amount of assets.
  - C. The firm must have a minimum number of directors.**
  - D. The firm must have a minimum number of shares outstanding.
  - E. The firm must have a minimum market value.

LO5: Stock Exchanges  
Level: Intermediate  
Ross - Chapter 001 #108  
Type: Concepts

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

LO5: Markets  
Level: Basic  
Ross - Chapter 001 #109  
Type: Concepts

110. Which of the following is considered a "primary market" transaction?
- I. You buy shares in the public offering of a start-up company in the computer industry.
  - II. Your mother sells you the shares she purchased in your uncle's latest business venture.
  - III. You buy shares in Nortel Networks from your closest friend.
- A. I, II, and III
  - B. I and II only
  - C. I only**
  - D. II only
  - E. I and III only

LO5: Markets  
Level: Basic  
Ross - Chapter 001 #110  
Type: Concepts

111. A(n) \_\_\_\_\_ is a sale of securities which typically does not require registration with the OSC.
- A. secondary market transaction
  - B. over-the-counter transaction
  - C. private placement**
  - D. primary market transaction
  - E. initial public offering

LO5: Market Transactions  
Level: Intermediate  
Ross - Chapter 001 #111  
Type: Concepts

112. Which of the following would be considered a secondary market transaction?
- A. Buy or sell orders to a broker for shares listed on the TSX
  - B. A, B & C**
  - C. Buy or sell orders for the purchase of bonds in the over-the-counter market
  - D. Buy or sell orders to a broker for shares listed on the NYSE
  - E. A & C

LO5: Markets  
Level: Basic  
Ross - Chapter 001 #112  
Type: Concepts

113. On a typical day in Canada, the largest dollar volume of shares are traded \_\_\_\_\_.
- A. on the TSX**
  - B. on the Venture Exchange
  - C. over the counter
  - D. on the NYSE
  - E. in primary markets

LO5: Markets  
Level: Intermediate  
Ross - Chapter 001 #113  
Type: Concepts

114. Which of the following is considered a primary market transaction?
- A. An investor buys stock in Chrysler Canada from his buddy
  - B. Chrysler Canada's stockholders sell some of their shares to Kirk Kirkorian, another investor
  - C. On September 25, 1995, 30.8 million shares of stock changed hands on the TSX
  - D. Labatt's just announced what their upcoming quarterly dividend payment will be
  - E. A firm sells stock to the public for the first time in an IPO**

LO5: Primary Markets  
Level: Basic  
Ross - Chapter 001 #114  
Type: Concepts

115. By which of the following methods do chartered banks generate income?
- I. From the spread between interest paid on deposits and interest earned on loans.
  - II. From selling life insurance through their branch networks.
  - III. From services provided to corporate clients such as bank guarantees.
- A. I and II only
  - B. II only
  - C. I and III only**
  - D. I only
  - E. I, II, and III

*LO5: Financial Institutions  
Level: Intermediate  
Ross - Chapter 001 #115  
Type: Concepts*

116. All of the following are examples of Canadian financial institutions EXCEPT
- A. Chartered banks
  - B. Provincial governments**
  - C. Trust companies
  - D. Mutual funds
  - E. Investment dealers

*LO5: Financial Institutions  
Level: Basic  
Ross - Chapter 001 #116  
Type: Concepts*

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

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #117  
Type: Concepts*

118. Capital structure refers to which of the following issues?
- I. From whom should the firm borrow funds?
  - II. How much debt should the firm have in relation to its level of equity?
  - III. What level of current assets is required to maintain the firm's operational level?
  - IV. How much risk is associated with the future cash flows of a project?
- A. III only
  - B. I, II, and IV only
  - C. I, II, and III only
  - D. II only
  - E. I and II only**

*LO1: Capital Structure  
Level: Intermediate  
Ross - Chapter 001 #118  
Type: Concepts*

119. Working capital management is concerned with which balance sheet accounts?
- A. Current assets only
  - B. Current and long-term assets only
  - C. Current assets, long-term assets and current liabilities only
  - D. Long-term assets only
  - E. Current assets and current liabilities only**

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #119  
Type: Concepts*

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

*LO2: Sole Proprietorship  
Level: Intermediate  
Ross - Chapter 001 #120  
Type: Concepts*

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

*LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #121  
Type: Concepts*

122. It is easiest to raise capital for a project under which form of business organization?
- A.** Corporation
  - B. General partnership
  - C. Sole proprietorship
  - D. The form of business organization does NOT affect the ability to raise capital.
  - E. Limited partnership

*LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #122  
Type: Concepts*

123. The ultimate responsibility for a corporation rests with:
- A.** The stockholders.
  - B. The Board of Directors.
  - C. The stakeholders.
  - D. The Chief Operations Officer.
  - E. The Chairman of the Board.

*LO2: Stockholders  
Level: Basic  
Ross - Chapter 001 #123  
Type: Concepts*

124. When a corporation issues additional shares of common stock, they do so:
- A. Only through the OTC market.
  - B. Only through the private markets.
  - C. Through a dealer in the secondary market.
  - D. Through a broker in the secondary market.
  - E.** In the primary market.

*LO5: Primary Market  
Level: Intermediate  
Ross - Chapter 001 #124  
Type: Concepts*

125. Which one of the following statements is true concerning stock exchanges?
- A. The Tokyo Stock Exchange is not a very actively traded upon exchange.
  - B.** The total value of NASDAQ listed stocks is less than the total value of NYSE listed stocks.
  - C. The Toronto Stock Exchange is the largest exchange in the world.
  - D. The OTC market is physically located in Toronto.
  - E. NASDAQ listed stocks trade more actively than those listed on the NYSE.

*LO5: Stock Exchanges  
Level: Intermediate  
Ross - Chapter 001 #125  
Type: Concepts*



126. Which of the following statements concerning dealers are true?

- I. Dealers usually buy and sell only for themselves.
- II. Dealers accept the risks of owning shares of stock.
- III. The OTC market is a dealer market.
- IV. Most debt securities trade in dealer markets.

- A. I, II, and III only
- B. I and II only
- C. II and IV only
- D. I and III only
- E. I, II, III, and IV**

*LO5: Dealer Market  
Level: Intermediate  
Ross - Chapter 001 #126  
Type: Concepts*

127. Which of the following statements concerning auction markets are true?

- I. The TSX is an auction market.
- II. The OTC is an auction market.
- III. The NYSE is an auction market.
- IV. Auction markets have a physical location.

- A. I and II only
- B. II and III only
- C. I, II, and IV only
- D. I, II, and III only
- E. I, III, and IV only**

*LO5: Auction Market  
Level: Intermediate  
Ross - Chapter 001 #127  
Type: Concepts*

128. Which one of the following statements is correct concerning the listing of stock on an exchange?

- A. Any firm can list their stock on any exchange they desire.
- B. The TSX has the most stringent listing requirements of any Canadian stock exchange.**
- C. All exchanges have the same listing requirements.
- D. Listing requirements are established by the Ontario Securities Commission.
- E. The number of shareholders is NOT a listing consideration for a stock.

*LO5: Listing  
Level: Intermediate  
Ross - Chapter 001 #128  
Type: Concepts*

129. Which of the following is a disadvantage of the corporate form of ownership?

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

*LO2: Corporations  
Level: Intermediate  
Ross - Chapter 001 #129  
Type: Concepts*

130. Which of the following are capital structure decisions?
- I. Determining the amount of money to borrow in order to finance a 10-year project
  - II. Determining the number of shares of common stock to issue
  - III. Determining when a supplier should be paid
  - IV. Establishing the accounts receivable policies
- A. I and III only
  - B. III and IV only
  - C. I, III, and IV only
  - D. II and III only
  - E.** I and II only

*LO1: Capital Structure  
Level: Intermediate  
Ross - Chapter 001 #130  
Type: Concepts*

131. Which of the following are working capital decisions?
- I. Determining the level of inventory to be kept on hand
  - II. Determining if a supplier's credit terms are acceptable
  - III. Establishing the accounts receivable payment terms
  - IV. Deciding if a new project should be accepted
- A. II and IV only
  - B. III and IV only
  - C.** I, II, and III only
  - D. II and III only
  - E. I and II only

*LO1: Working Capital  
Level: Intermediate  
Ross - Chapter 001 #131  
Type: Concepts*

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

*LO2: Organizational  
Level: Intermediate  
Ross - Chapter 001 #132  
Type: Concepts*

133. Financial managers must be concerned with which of the following aspects of cash flows?
- I. Amount of the cash flow
  - II. Timing of the cash flow
  - III. Likelihood of the cash flow being received
  - IV. Possibility that only a portion of the expected cash flow will be received
- A. II, III, and IV only
  - B. II and IV only
  - C.** I, II, III, and IV
  - D. I, II, and III only
  - E. I and II only

*LO1: Capital Budgeting  
Level: Intermediate  
Ross - Chapter 001 #133  
Type: Concepts*

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

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #134  
Type: Concepts*

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

*LO2: Proprietorship  
Level: Intermediate  
Ross - Chapter 001 #135  
Type: Concepts*

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

*LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #136  
Type: Concepts*

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

*LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #137  
Type: Concepts*

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

*LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #138  
Type: Concepts*

139. Which of the following are advantages of the corporate form of ownership?
- A. Simplicity of company formation and the ability to raise capital
  - B. Ease of ownership transfer and simplicity of company formation
  - C. Limited personal liability and limited firm life
  - D. Limited personal liability and ability to raise capital**
  - E. Ability to raise capital and limited firm life

*LO2: Corporation  
Level: Intermediate  
Ross - Chapter 001 #139  
Type: Concepts*

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

*LO3: Goal of Financial Management  
Level: Intermediate  
Ross - Chapter 001 #140  
Type: Concepts*

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

*LO4: Agency Problem  
Level: Challenge  
Ross - Chapter 001 #141  
Type: Concepts*

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

*LO4: Agency Problem  
Level: Intermediate  
Ross - Chapter 001 #142  
Type: Concepts*

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

*LO5: Auction Market  
Level: Intermediate  
Ross - Chapter 001 #143  
Type: Concepts*

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

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #144  
Type: Concepts*

145. An individual who places an order to buy 1000 shares of IBM stock:
- A. Must have hired a dealer to perform this transaction.
  - B. Is most likely involved in an IPO.
  - C. Has to be listed as a private dealer.
  - D.** Is most likely participating in the secondary market.
  - E. Is involved in a private placement of securities.

*LO5: Secondary Market  
Level: Intermediate  
Ross - Chapter 001 #145  
Type: Concepts*

146. Stockholders elect:
- A.** The Corporate Directors.
  - B. The President.
  - C. All senior managers.
  - D. The Chief Executive Officer.
  - E. The Chairman of the Board.

*LO2: Organizational Chart  
Level: Basic  
Ross - Chapter 001 #146  
Type: Concepts*

147. Which one of the following questions would most likely be the responsibility of the financial manager?
- A. Which employees should work overtime?
  - B. Where should a new store be located?
  - C.** How should the firm finance a new distribution center?
  - D. What price should be charged for a new product?
  - E. Which product markets should be expanded?

*LO1: Financial Management  
Level: Basic  
Ross - Chapter 001 #147  
Type: Concepts*

148. The treasurer of a firm is most apt to report to the:
- A. president.
  - B. controller.
  - C.** vice president of finance.
  - D. chief executive officer.
  - E. chief operating officer.

*LO2: Organizational Structure  
Level: Basic  
Ross - Chapter 001 #148  
Type: Concepts*

149. Which one of the following is a capital budgeting decision?
- A. evaluating the minimal amount of cash which the firm should keep on hand
  - B.** deciding whether or not the firm should open another retail outlet
  - C. establishing the length of time for which store credit will be offered
  - D. determining which bank has the best loan terms
  - E. ascertaining the optimal level of inventory

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #149  
Type: Concepts*

150. Which of the following should be considered when making a capital budgeting decision?
- I. the amount of cash flows which will be required or obtained
  - II. the timing of all cash inflows and outflows
  - III. the amount of debt versus the amount of equity which should be obtained
  - IV. the risk associated with the expected cash inflows
- A. I and III only
  - B. II and IV only
  - C. II and III only
  - D. I and II only
  - E. I, II, and IV only**

*LO1: Capital Budgeting  
Level: Intermediate  
Ross - Chapter 001 #150  
Type: Concepts*

151. Luis has just decided that his firm should obtain \$10 million in bank financing from the Atlantic Bank and Trust and should issue \$25 million in new equity shares. Luis has just made a(n) \_\_\_\_\_ decision.
- A. capital budgeting
  - B. capital structure**
  - C. working capital
  - D. operational
  - E. marketing

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #151  
Type: Concepts*

152. Mr. Webster, the CEO of Master Works, Inc., recently stated that the firm will maintain its current policy of borrowing \$.40 for every \$1 invested by shareholders. Mr. Webster was referring to the \_\_\_\_\_ policy of the firm.
- A. capital investment
  - B. financial planning
  - C. capital structure**
  - D. working capital
  - E. capital budgeting

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #152  
Type: Concepts*

153. Margie has just been promoted to the position of working capital manager. As part of her duties, Margie will be responsible for:
- A. allocating manufacturing overhead.
  - B. managing long-term debt.
  - C. controlling labour costs.
  - D. overseeing accounts payable.**
  - E. pricing manufactured goods.

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #153  
Type: Concepts*

154. Working capital management:
- A. is the oversight of a firm's long-term assets.
  - B. deals with the refinancing of the firm's debt if interest rates decline.
  - C. deals with the allocation of equipment to various jobs on a daily basis.
  - D. involves the determination of how much long-term debt should be issued.
  - E. includes the daily oversight of a firm's cash requirements.**

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #154  
Type: Concepts*

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

*LO2: Sole Proprietorship  
Level: Basic  
Ross - Chapter 001 #155  
Type: Concepts*

156. Which of the following statements related to partnerships are correct?
- I. Partnerships have unlimited lives due to the multiple form of ownership.
  - II. Partnership income is treated as personal income of the partners.
  - III. General partners have limited liability for the debts of the partnership.
  - IV. A limited partner can lose his or her investment in the partnership.
- A. I, II, and III only
  - B.** II and IV only
  - C. I, II, III, and IV
  - D. I and III only
  - E. III and IV only

*LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #156  
Type: Concepts*

157. Which one of the following is a disadvantage of a partnership?
- A.** growth limitations due to the inability to raise investment capital
  - B. double taxation
  - C. complexity and cost of partnership formation
  - D. the debt obligations of a limited partner
  - E. ability to raise capital as compared to a sole proprietorship

*LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #157  
Type: Concepts*

158. Which of the following are common characteristics between a sole proprietorship and a general partnership?
- I. method of taxation
  - II. limited life of business entity
  - III. personal liability
  - IV. division of net profits
- A. II and III only
  - B. I and IV only
  - C.** I, II, and III only
  - D. I, III, and IV only
  - E. I and II only

*LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #158  
Type: Concepts*

159. A corporation:  
I. is subject to double taxation.  
II. can be sued.  
III. can have an unlimited life.  
IV. can be a general partner in a partnership.  
A. II and III only  
B. I and III only  
**C. I, II, III, and IV**  
D. I, II, and III only  
E. II, III, and IV only

*LO2: Corporation  
Level: Intermediate  
Ross - Chapter 001 #159  
Type: Concepts*

160. Robert Fischer is one of the owners of a firm which generated \$18,000 in taxable income last year. Robert did not have to pay any personal tax on his share of the firm's income. Robert must be a partial owner of a:  
A. limited liability company.  
**B. non-dividend paying corporation.**  
C. limited partnership.  
D. sole proprietorship.  
E. general partnership.

*LO2: Corporation  
Level: Challenge  
Ross - Chapter 001 #160  
Type: Concepts*

161. The articles of incorporation include which of the following items?  
I. the maximum number of shares of stock that can be issued  
II. a description of the method to be used to elect individuals to the board of directors  
III. the intended life of the corporation  
IV. the name of the corporation  
A. I and III only  
**B. I, III, and IV only**  
C. II and IV only  
D. I, II, and III only  
E. II and III only

*LO2: Articles of Incorporation  
Level: Intermediate  
Ross - Chapter 001 #161  
Type: Concepts*

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

*LO3: Goal of Financial Management  
Level: Basic  
Ross - Chapter 001 #162  
Type: Concepts*

163. Which one of the following groups is the goal of financial management centered around?  
**A. existing shareholders**  
B. current creditors  
C. potential new shareholders  
D. existing management  
E. the CRA

*LO3: Goal of Financial Management  
Level: Basic  
Ross - Chapter 001 #163  
Type: Concepts*



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

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #164  
Type: Concepts

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

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #165  
Type: Concepts

166. Managers who place the interest of the shareholders first, will tend to:
- A. be replaced on a routine basis.
  - B. realize minimal value from the stock options they are granted.
  - C. reward employees for unethical behavior if that behavior increases the firm's net income.
  - D. decline all offers to buy the firm.
  - E. be in greater demand and receive higher compensation.**

LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #166  
Type: Concepts

167. Which of the following are agency costs?
- I. flying an executive overseas without a genuine business purpose for doing so
  - II. paying more than the actual market value to purchase a competitor
  - III. hiring outside auditors to monitor the firm's financial activities
  - IV. protecting management jobs which could effectively be eliminated
- A. I, II, and IV only
  - B. II and IV only
  - C. I, II, III, and IV**
  - D. III and IV only
  - E. I and II only

LO4: Agency Costs  
Level: Intermediate  
Ross - Chapter 001 #167  
Type: Concepts

168. Which of the following are stakeholders of the BBX grocery store?
- I. individuals and institutions who own BBX stock
  - II. a bank to whom BBX owes money
  - III. the government
  - IV. an individual who lives next door to and shops in a BBX store
- A. III and IV only
  - B. I, II, III, and IV**
  - C. I, II, and IV only
  - D. I and II only
  - E. II, III, and IV only

LO5: Stakeholders  
Level: Intermediate  
Ross - Chapter 001 #168  
Type: Concepts

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

*LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #169  
Type: Concepts*

170. NASDAQ is:
- A. an electronic market trading solely in corporate and government bonds.
  - B. the largest financial market in the U.S. in terms of the total value of listed stocks.
  - C. an electronic market which has no physical location.**
  - D. a market with far fewer listings than the NYSE.
  - E. both an OTC and an auction market.

*LO5: NASDAQ  
Level: Intermediate  
Ross - Chapter 001 #170  
Type: Concepts*

171. Which of the following questions are addressed by financial managers?
- I. How long will it take to produce a product?
  - II. How long should customers be given to pay for their credit purchases?
  - III. Should the firm borrow more money?
  - IV. Should the firm build a new factory?
- A. I, II, III, and IV
  - B. I, II, and III only
  - C. I and IV only
  - D. II, III, and IV only**
  - E. II and III only

*LO1: Financial Management  
Level: Basic  
Ross - Chapter 001 #171  
Type: Concepts*

172. The treasurer and the controller of a corporation generally report to the:
- A. vice president of finance.**
  - B. president.
  - C. chairman of the board.
  - D. chief executive officer.
  - E. board of directors.

*LO2: Organizational Structure  
Level: Basic  
Ross - Chapter 001 #172  
Type: Concepts*

173. Which one of the following statements is correct concerning the organizational structure of a corporation?
- A. The chief executive officer reports to the board of directors.**
  - B. The controller reports to the president.
  - C. The chief operations officer reports to the vice president of production.
  - D. The vice president of finance reports to the chairman of the board.
  - E. The treasurer reports to the chief executive officer.

*LO2: Organizational Structure  
Level: Basic  
Ross - Chapter 001 #173  
Type: Concepts*

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

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #174  
Type: Concepts*

175. When considering a capital budgeting project the financial manager should consider:
- A. only the size of the project.
  - B. only the timing of the project cash flows.
  - C. only the size and timing of the project cash flows.
  - D. only the risk of the project cash flows.
  - E. the size, timing, and risk of the project cash flows.**

*LO1: Capital Budgeting  
Level: Basic  
Ross - Chapter 001 #175  
Type: Concepts*

176. Capital structure decisions include consideration of the:
- I. amount of long-term debt to assume.
  - II. cost of acquiring funds.
  - III. current assets and liabilities.
  - IV. net working capital.
- A. I, II, and IV only
  - B. I, III, and IV only
  - C. III and IV only
  - D. I and II only**
  - E. II and III only

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #176  
Type: Concepts*

177. The decision of which lender to use and which type of long-term loan is best for a project is part of:
- A. capital budgeting.
  - B. a controller's duties.
  - C. the net working capital decision.
  - D. the capital structure decision.**
  - E. working capital management.

*LO1: Capital Structure  
Level: Basic  
Ross - Chapter 001 #177  
Type: Concepts*

178. Working capital management includes decisions concerning which of the following?
- I. accounts payable
  - II. long-term debt
  - III. accounts receivable
  - IV. inventory
- A. I and III only
  - B. I and II only
  - C. I, II, and III only
  - D. II and IV only
  - E. I, III, and IV only**

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #178  
Type: Concepts*

179. Working capital management:
- A. ensures that long-term debt is acquired at the lowest possible cost.
  - B. balances the amount of company debt to the amount of available equity.
  - C. ensures that sufficient equipment is available to produce the amount of product desired on a daily basis.
  - D. ensures that dividends are paid to all stockholders on an annual basis.
  - E.** is concerned with having sufficient funds to operate the business on a daily basis.

*LO1: Working Capital Management  
Level: Basic  
Ross - Chapter 001 #179  
Type: Concepts*

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

*LO2: Sole Proprietorship  
Level: Basic  
Ross - Chapter 001 #180  
Type: Concepts*

181. Which one of the following statements is correct concerning corporations?
- A. The stockholders are usually the managers of a corporation.
  - B.** The largest firms are usually corporations.
  - C. The ability of a corporation to raise capital is quite limited.
  - D. The income of a corporation is taxed as personal income of the stockholders
  - E. The majority of firms are corporations.

*LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #181  
Type: Concepts*

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

*LO2: Sole Proprietorship  
Level: Basic  
Ross - Chapter 001 #182  
Type: Concepts*

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

*LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #183  
Type: Concepts*

184. A general partner:
- A. is the term applied only to corporations which invest in partnerships.
  - B. faces double taxation whereas a limited partner does not.
  - C. has more management responsibility than a limited partner.
  - D. has less legal liability than a limited partner.
  - E. cannot lose more than the amount of his/her equity investment.

LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #184  
Type: Concepts

185. A partnership:
- A. agreement defines whether the business income will be taxed like a partnership or a corporation.
  - B. is taxed the same as a corporation.
  - C. allows for easy transfer of interest from one general partner to another.
  - D. has less of an ability to raise capital than a proprietorship.
  - E. terminates at the death of any general partner.

LO2: Partnership  
Level: Basic  
Ross - Chapter 001 #185  
Type: Concepts

186. Which of the following are disadvantages of a partnership?
- I. limited life of the firm
  - II. personal liability for firm debt
  - III. greater ability to raise capital than a sole proprietorship
  - IV. lack of ability to transfer partnership interest
- A. III and IV only
  - B. I and II only
  - C. I, III, and IV only
  - D. II and III only
  - E. I, II, and IV only

LO2: Partnership  
Level: Intermediate  
Ross - Chapter 001 #186  
Type: Concepts

187. Which of the following are advantages of the corporate form of business ownership?
- I. limited liability for firm debt
  - II. double taxation
  - III. ability to raise capital
  - IV. unlimited firm life
- A. III and IV only
  - B. I, II, and III only
  - C. I, III, and IV only
  - D. II, III, and IV only
  - E. I and II only

LO2: Corporation  
Level: Intermediate  
Ross - Chapter 001 #187  
Type: Concepts

188. Which one of the following statements is correct concerning corporations?
- A. The largest firms are usually corporations.
  - B. The majority of firms are corporations.
  - C. The income of a corporation is taxed as personal income of the stockholders.
  - D. The stockholders are usually the managers of a corporation.
  - E. The ability of a corporation to raise capital is quite limited.

LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #188  
Type: Concepts

189. Which one of the following statements is correct?
- A.** Both sole proprietorships and partnerships are taxed in a similar fashion.
  - B. All types of business formations have limited lives.
  - C. Partnerships are the most complicated type of business to form.
  - D. Both partnerships and corporations incur double taxation.
  - E. Both partnerships and corporations have bylaws.

LO2: Business Types  
Level: Basic  
Ross - Chapter 001 #189  
Type: Concepts

190. The articles of incorporation:
- A. set forth the rules by which the corporation regulates its existence.
  - B. are amended annually by the company stockholders.
  - C. can be used to remove company management.
  - D.** set forth the number of shares of stock that can be issued.
  - E. can set forth the conditions under which the firm can avoid double taxation.

LO2: Articles of Incorporation  
Level: Basic  
Ross - Chapter 001 #190  
Type: Concepts

191. The bylaws:
- A. set forth the procedure by which the stockholders elect the senior managers of the firm.
  - B. establish the name of the corporation.
  - C.** mandate the procedure for electing corporate directors.
  - D. are rules which apply only to limited liability companies.
  - E. set forth the purpose of the firm.

LO2: Bylaws  
Level: Basic  
Ross - Chapter 001 #191  
Type: Concepts

192. Which one of the following business types is best suited to raising large amounts of capital?
- A.** corporation
  - B. limited partnership
  - C. limited liability company
  - D. sole proprietorship
  - E. general partnership

LO2: Corporation  
Level: Intermediate  
Ross - Chapter 001 #192  
Type: Concepts

193. Which type of business organization has all the respective rights and privileges of a legal person?
- A. general partnership
  - B.** corporation
  - C. limited partnership
  - D. limited liability company
  - E. sole proprietorship

LO2: Corporation  
Level: Basic  
Ross - Chapter 001 #193  
Type: Concepts

194. Financial managers should strive to maximize the current value per share of the existing stock because:
- A. doing so means the firm is growing in size faster than its competitors.
  - B.** they have been hired for the purpose of representing the interest of the current shareholders.
  - C. doing so increases the salaries of all the employees.
  - D. the managers often receive shares of stock as part of their compensation.
  - E. doing so guarantees the company will grow in size at the maximum possible rate.

LO3: Goal of Financial Management  
Level: Intermediate  
Ross - Chapter 001 #194  
Type: Concepts

195. The decisions made by financial managers should all be ones which increase the:
- A. size of the firm.
  - B. marketability of the managers.
  - C. financial distress of the firm.
  - D. growth rate of the firm.
  - E.** market value of the existing owners' equity.

*LO3: Goal of Financial Management  
Level: Basic  
Ross - Chapter 001 #195  
Type: Concepts*

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

*LO4: Agency Problem  
Level: Intermediate  
Ross - Chapter 001 #196  
Type: Concepts*

197. Which of the following help convince managers to work in the best interest of the stockholders?
- I. compensation based on the value of the stock
  - II. stock option plans
  - III. threat of a company takeover
  - IV. threat of a proxy fight
  - A.** I, II, III, and IV
  - B. I, II, and III only
  - C. III and IV only
  - D. I and II only
  - E. I, III, and IV only

*LO4: Agency Problem  
Level: Intermediate  
Ross - Chapter 001 #197  
Type: Concepts*

198. Which form of business structure faces the greatest agency problems?
- A. limited liability company
  - B. sole proprietorship
  - C. limited partnership
  - D.** corporation
  - E. general partnership

*LO4: Agency Problem  
Level: Basic  
Ross - Chapter 001 #198  
Type: Concepts*

199. Which of the following are agency costs?
- I. foregoing an investment opportunity which would add to the market value of the owner's equity
  - II. paying a dividend to each of the existing shareholders
  - III. purchasing new equipment which increases the value of each share of stock
  - IV. hiring outside auditors to verify the accuracy of the company financial statements
  - A. II and III only
  - B. II and IV only
  - C. I, II, and IV only
  - D.** I and IV only
  - E. I and III only

*LO4: Agency Costs  
Level: Intermediate  
Ross - Chapter 001 #199  
Type: Concepts*

200. Which of the following represent cash outflows from a firm?

- I. issuance of securities
- II. payment of dividends
- III. new loan proceeds
- IV. payment of government taxes
- A.** II and IV only
- B. I, II, and IV only
- C. II, III, and IV only
- D. I and IV only
- E. I and III only

LO1: Cash Flows  
Level: Intermediate  
Ross - Chapter 001 #200  
Type: Concepts

201. Which one of the following is a primary market transaction?

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

LO5: Primary Market  
Level: Basic  
Ross - Chapter 001 #201  
Type: Concepts

202. Which of the following statements concerning auction markets is (are) correct?

- I. NASDAQ is an auction market.
- II. The TSX is an auction market.
- III. All trades involve a dealer in an auction market.
- IV. An auction market is called an over-the-counter market.
- A. II and IV only
- B. II and III only
- C.** II only
- D. I only
- E. I and III only

LO5: Auction Market  
Level: Intermediate  
Ross - Chapter 001 #202  
Type: Concepts

203. Which one of the following statements concerning stock exchanges is correct?

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

LO5: Stock Exchange  
Level: Basic  
Ross - Chapter 001 #203  
Type: Concepts

204. Dealer markets:

- A. are reserved strictly for trading debt securities.
- B. list only the securities of the largest firms.
- C. only exist outside of Canada.
- D.** are called over-the-counter markets.
- E. include NASDAQ and the New York Stock Exchange.

LO5: Dealer Markets  
Level: Basic  
Ross - Chapter 001 #204  
Type: Concepts



205. Which one of the following statements is correct concerning the TSX?
- A. A firm is expected to have a market value for its publicly held shares of at least \$2 million to be listed on the TSX.
  - B. Any corporation desiring to be listed on the TSX can do so.
  - C. The TSX is the second largest stock exchange in the world.
  - D. The TSX is an over-the-counter exchange functioning as both a primary and a secondary market.
  - E. The TSX is the largest dealer market for listed securities in Canada.

LO5: TSX  
Level: Basic  
Ross - Chapter 001 #205  
Type: Concepts

206. Which of the following statements concerning NASDAQ are correct?
- I. Most smaller firms are listed on NASDAQ rather than on the NYSE.
  - II. NASDAQ is an electronic market.
  - III. NASDAQ is an auction market.
  - IV. NASDAQ is an OTC market.
- A. I and III only
  - B. I and II only
  - C. I, II, III, and IV
  - D. II and IV only
  - E. I, II, and IV only

LO5: NASDAQ  
Level: Intermediate  
Ross - Chapter 001 #206  
Type: Concepts

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

The three areas are:

1. Capital budgeting: The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.
2. Capital structure: This refers to the specific mixture of long-term debt and equity a firm uses to finance its operations.
3. Working capital management: This refers to a firm's short-term assets and short-term liabilities. Managing the firm's working capital is a day-to-day activity that ensures the firm has sufficient resources to continue its operations and avoid costly interruptions.

LO1: Financial Management  
Level: Basic  
Ross - Chapter 001 #207  
Type: Essay

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

The importance of the corporate form of organization lies in its advantages: ease of transferring ownership, the owners' limited liability for business debts, and unlimited life of the business.

LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #208  
Type: Essay

209. If the corporate form of business organization has so many advantages over the corporate form, why is it so common for small businesses to initially be formed as sole proprietorships?

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

*LO2: Business Organizations  
Level: Basic  
Ross - Chapter 001 #209  
Type: Essay*

210. What should be the goal of the financial manager of a corporation? Why?

The correct goal is to maximize the current value of the outstanding stock. This focuses correctly on enhancing the returns to shareholders, the owners of the firm. Other goals, such as maximizing earnings, focus too narrowly on accounting income and ignore the importance of market values in managerial finance.

*LO3: Financial Management Goal  
Level: Basic  
Ross - Chapter 001 #210  
Type: Essay*

211. Do you think agency problems arise in sole proprietorships and/or partnerships?

Agency conflicts typically arise when there is a separation of ownership and management of a business. In a sole proprietorship and a small partnership, such separation is not likely to exist to the degree it does in a corporation. However, there is still potential for agency conflicts. For example, as employees are hired to represent the firm, there is once again a separation of ownership and management.

*LO4: Agency Theory  
Level: Intermediate  
Ross - Chapter 001 #211  
Type: Essay*

212. Assume for a moment that the stockholders in a corporation have unlimited liability for corporate debts. If so, what impact would this have on the functioning of primary and secondary markets for common stock?

With unlimited liability, you would be very careful which stocks you invest in. In particular, you would not invest in companies you expected to be unable to satisfy their financial obligations. Both the primary and secondary markets for common stock would be severely hampered if this rule existed. It would be very difficult for a young, untested business to get enough capital to grow.

*LO2: Limited Liability  
Level: Challenge  
Ross - Chapter 001 #212  
Type: Essay*

213. Suppose you own 100 shares of IBM stock which you intend to sell today. Since you will sell it in the secondary market, IBM will receive no direct cash flows as a consequence of your sale. Why, then, should IBM's management care about the price you get for your shares?

The current market price of IBM stock reflects, among other things, market opinion about the quality of firm management. If the shareholder's sale price is low, this indirectly reflects on the reputation of the managers, as well as potentially impacting their standing in the employment market. Alternatively, if the sale price is high, this indicates that the market believes current management is increasing firm value, and therefore doing a good job.

*LO3: Financial Management Goals  
Level: Challenge  
Ross - Chapter 001 #213  
Type: Essay*

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

In the event of a loan default, a lender may wish to liquidate the business. Often it is time consuming and difficult to take title of all of the business assets individually. By taking control of the stock, the lender is able to sell the business simply by reselling the stock in the business. This illustrates once again the ease of transfer of ownership of a corporation.

*LO2: Transfer of Ownership in a Corporation  
Level: Challenge  
Ross - Chapter 001 #214  
Type: Essay*

215. Why might a corporation wish to list its shares on a national exchange such as the TSX as opposed to a regional exchange? How about being traded OTC?

Being listed on a regional exchange effectively limits the capital access for the business. Plus, there is a prestige factor in being listed on one of the national exchanges. There is still a prestige factor in moving from OTC to the TSX since the TSX has more restrictive membership requirements.

*LO5: Exchange Listings  
Level: Intermediate  
Ross - Chapter 001 #215  
Type: Essay*

216. Identify the two capital structure issues that financial managers must address and explain the effects and significance of these issues.

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

*LO1: Capital Structure  
Level: Challenge  
Ross - Chapter 001 #216  
Type: Essay*

217. Explain the cash flow pattern between a firm and the financial markets.

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

*LO1: Cash Flows  
Level: Intermediate  
Ross - Chapter 001 #217  
Type: Essay*

218. Describe the goal of financial management and give an example of a management compensation program which is designed to encourage managers to adhere to that goal.

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

*LO3: Financial Management  
Level: Intermediate  
Ross - Chapter 001 #218  
Type: Essay*

219. Describe two types of business organizations in which you could obtain an ownership position while enjoying limited liability. Provide an example of a type of firm that you might find utilizing each business type.

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

*LO2: Business Organizations  
Level: Intermediate  
Ross - Chapter 001 #219  
Type: Essay*

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

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

*LO2: Ethics and Corporate Value  
Level: Intermediate  
Ross - Chapter 001 #220  
Type: Essay*

# 1 Summary

| <u>Category</u>                             | <u># of Questions</u> |
|---|-----------------------|
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|                          |     |
|--------------------------|-----|
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| LO5: Stakeholder         | 1   |
| LO5: Stakeholders        | 2   |
| LO5: Stock Exchange      | 1   |
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