

## Chapter 01 Testbank - Static

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

1 Large Australian company stocks such as BHP and Telstra:

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- A. can only trade on the ASX.
- B. can trade on the stock exchange of their choosing as long as they qualify for listing.
- C. trade only in dealer markets.
- D. are sold to investors as private placement and are held to maturity.
- E. trade over the counter.

2 The person responsible for managing a firm's cash flow, credits and capital expenditures is called a:

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- A. broker.
- B. stakeholder.
- C. chief accountant.
- D. controller.
- E. treasurer.

3 The most important function of a financial market is:

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- A. to facilitate the flow of funds between lenders and borrowers.
- B. to provide a market for shares.
- C. to provide information about an issuing company's financial situation.
- D. to secure profits for brokers and agents.
- E. to provide information about shares.

4 A primary financial market is one that:

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- A. involves the sale of existing securities.
- B. offers securities with the highest expected return.
- C. offers the greatest choice of shares and debentures.
- D. offers only securities with the highest historical return.
- E. involves the sale of securities for the first time.

5 Secondary markets:

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- A. allow borrowers to raise long-term funds.
- B. facilitate capital-raising in the primary market.
- C. allow borrowers to raise short-term funds.
- D. do not raise new funds but offer liquidity.
- E. facilitate all of the given answers.

6 The top financial officer in a firm is commonly referred to as the:

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- A. chief financial officer.
- B. president of finance.
- C. controller.
- D. treasurer.
- E. finance manager.

7 The amount of debt and equity used by a firm to finance its operations is called the firm's:

.

- A. debt ratio.
- B. working capital ratio.
- C. capital structure.
- D. financial position.
- E. cash position.

8 Short-term assets and short-term liabilities are referred to as the firm's:

.

- A. cash flow.
- B. capital budget.
- C. capital structure.
- D. working capital.
- E. financing mix.

9 The management of a firm's cash, inventory, and payables is referred to as:

- A. cash-flow forecasting.
- B. asset management.
- C. capital management.
- D. cash budgeting.
- E. working capital management.

10 A business organisation that is similar to a sole proprietorship but has two or more owners is called a:

- A. limited liability company.
- B. corporation.
- C. dual company.
- D. partnership.
- E. joint stock company.

11 The legal papers which designate a firm's name, nature of business, and intended life are called the:

- A. corporate by-laws.
- B. charter or constitution.
- C. partnership agreement.
- D. joint stock company forms.
- E. proprietary declaration.

12 Any situation where a conflict may arise between the firm's owners and its managers is referred to as a(n):

- A. organisational problem.
- B. personnel conflict.
- C. agency problem.
- D. control issue.
- E. compensation issue.

13 The primary market refers to:

- A. the original sale of securities by the issuer.
- B. transactions between two institutional shareholders.
- C. the sale of securities by an individual shareholder.
- D. the first trade of a firm's securities when the financial markets open in the morning.
- E. all transactions on the NYSE.

14 A negotiated sale of securities by an issuer to a specific buyer is called a(n):

- A. public offering.
- B. secondary placement.
- C. specialised sale.
- D. independent placement.
- E. private placement.

15 Over-the-counter markets are \_\_\_\_\_ markets.

- A. dealer
- B. franchise
- C. private
- D. auction
- E. physical

16 A securities market with a physical location that is designed to match buyers with sellers is called a(n) \_\_\_\_\_ market:

- A. dealer
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17 Which one of the following statements is related to capital budgeting?

- A. A firm should monitor the ratio of debt to equity financing which it uses.
- B. A firm should monitor the amount of its current assets as compared to its current liabilities.
- C. A firm should consider the size, risk, and timing of an asset's cash flows before deciding to purchase that asset.
- D. A firm should consider various types of loans offered by various lenders before taking out a loan.
- E. A firm should determine the ideal level of inventory that should be kept on hand.

18 Working capital management includes which of the following?

- I. Controlling the inventory level
- II. Determining when to pay suppliers
- III. Deciding how much long-term debt to assume
- IV. Controlling the amount of cash that is readily available

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

19 A corporation:

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- A. can neither sue another party nor be sued.
- B. may not own property.
- C. may enter into contracts to borrow funds.
- D. can issue its own shares but cannot purchase shares in another entity.
- E. can be formed by an oral agreement amongst the shareholders.

20 The primary goal of financial management is to maximise the:

.

- A. current net income.
- B. net working capital.
- C. number of shares outstanding.
- D. market value of the existing stock.
- E. capital structure.

21 Margie opened a used book store and is both the 100% owner and the store's manager. Which type of business entity does Margie own if she is personally liable for all the store's debts?

.

- A. Sole proprietorship
- B. Limited partnership
- C. Corporation
- D. Joint stock company
- E. General partnership



22 Will and Bill both enjoy sunshine, water and surfboards. Thus, the two friends decided to create a business together in Sydney renting surfboards, paddle boats and inflatable devices. Will and Bill will equally share in the decision making and in the profits or losses. Which type of business should they create if they both have full personal liability for the firm's debts?

- A. Sole proprietorship
- B. Limited partnership
- C. Corporation
- D. Joint stock company
- E. General partnership

23 Todd and Cathy created a firm that is a separate legal entity and will share ownership of that firm on a 50/50 basis. Which type of entity did they create if they have no personal liability for the firm's debts?

- A. Limited partnership
- B. Corporation
- C. Sole proprietorship
- D. General partnership
- E. Public company

24

Which of the following individuals commonly use finance in the course of their job?

- I. Chief financial officers
- II. Accountants
- III. Security analysts
- IV. Strategic managers

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

25 Which one of the following functions should be assigned to the treasurer rather than the controller?

- A. Data processing
- B. Cost accounting
- C. Tax management
- D. Cash management
- E. Financial accounting

26 Which one of the following is a working capital decision?

- A. How should the firm raise additional capital to fund its expansion?
- B. What debt-equity ratio is best suited to our firm?
- C. What is the cost of debt financing?
- D. Which type of debt is best suited to finance our inventory?
- E. How much cash should the firm keep in reserve?

27 The daily financial operations of a firm are primarily controlled by managing the:

- A. total debt level.
- B. working capital.
- C. capital structure.
- D. capital budget.
- E. long-term liabilities.

28 Which one of the following statements correctly applies to a sole proprietorship?

- A. The business entity has an unlimited life.
- B. The ownership can easily be transferred to another individual.
- C. The owner enjoys limited liability for the firm's debts.
- D. Debt financing is easy to arrange in the firm's name.
- E. Obtaining additional equity is dependent on the owner's personal finances.

29 Which one of the following applies to a general partnership?

- A. The firm's operations must be controlled by a single partner.
- B. Any one of the partners can be held solely liable for all of the partnership's debt.
- C. The profits of the firm are taxed as a separate entity.
- D. Each partner's liability for the firm's debts is limited to each partner's investment in the firm.
- E. The profits of a general partnership are taxed the same as those of a corporation.

30 Which one of the following is a capital structure decision?

- A. Determining the optimal inventory level
- B. Establishing the preferred debt-equity level
- C. Selecting new equipment to purchase
- D. Setting the terms of sale for credit sales
- E. Determining when suppliers should be paid

31 Working capital management includes which one of the following?

- A. Deciding which new projects to accept
- B. Deciding whether to purchase a new machine or fix a current machine
- C. Determining which customers will be granted credit
- D. Determining how many new shares of stock should be issued
- E. Establishing the target debt-equity ratio

32 In a general partnership, each partner is personally liable for:

- A. the partnership debts that he or she created.
- B. his or her proportionate share of all partnership debts regardless of which partner incurred that debt.
- C. the total debts of the partnership, even if he or she was unaware of those debts.
- D. the debts of the partnership up to the amount he or she invested in the firm.
- E. all personal and partnership debts incurred by any partner, even if he or she was unaware of those debts.

33 A corporation:

- A. is ultimately controlled by its board of directors.
- B. is a legal entity separate from its owners.
- C. is prohibited from entering into contractual agreements.
- D. has its identity defined by its by-laws.
- E. has its existence regulated by the rules set forth in its charter.

34 Which of the following are advantages of the corporate form of organisation?

- I. Ability to raise large sums of equity capital
- II. Ease of ownership transfer
- III. Both profits and dividends are taxed
- IV. Limited liability for all owners

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

35 Which one of the following best matches the primary goal of financial management?

- A. Increasing the dollar amount of each sale
- B. Increasing traffic flow within the firm's stores
- C. Transforming fixed costs into variable costs
- D. Increasing the firm's liquidity
- E. Increasing the market value of the firm

36 What is the goal of financial management for a sole proprietorship?

- A. Maximise net income given the current resources of the firm
- B. Decrease long-term debt to reduce the risk to the owner
- C. Minimise the tax impact on the proprietor
- D. Maximise the market value of the equity
- E. Minimise the reliance on fixed costs

37 Which one of the following is most likely to create a situation where an agency conflict could arise?

- A. Increasing the size of a firm's operations
- B. Downsizing a firm
- C. Separating management from ownership
- D. Decreasing employee turnover
- E. Reducing both management and non-management salaries

38 Which one of the following is most likely to align management's priorities with shareholders' interests?

- A. Increasing employee retirement benefits
- B. Compensating managers with shares that must be held for three years before the shares can be sold
- C. Allowing a manager to decorate his or her own office once he or she has been in that office for a period of three years or more
- D. Increasing the number of paid holidays that long-term employees are entitled to receive
- E. Allowing employees to retire early with full retirement benefits

39 Which of the following are effective means of aligning management goals with shareholder interests?

- I. Employee share options
- II. Threat of a takeover
- III. Management bonuses tied to performance goals
- IV. Threat of a proxy fight

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



40 Financial institutions are:

.

- A. institutions that primarily invest in real estate.
- B. institutions that primarily deal in financial matters.
- C. institutions that deal in second-hand equipment.
- D. institutions that engage in manufacturing.
- E. none of the above.

41 The goal of a financial manager should be:

.

- A. to maximise next year's profit.
- B. to minimise next year's cost.
- C. to maximise the value of the existing owners' equity.
- D. to take no risks with shareholders' investments.
- E. none of the above are appropriate goals.

42 Which of the following is an example of the agency problem?

- A. Managers always invest in projects that have appropriate returns and that will increase shareholder wealth.
- B. Managers resign when they believe they have not always acted in the best interests of shareholders.
- C. Managers conduct an acquisition program purely to increase the size of an organisation.
- D. Managers do not look for new projects as they want to avoid business risk.
- E. Both C and D are examples of the agency problem.

43 Which one of the following situations is most likely to create an agency conflict?

- A. Compensating a manager based on his or her division's net income
- B. Giving all employees a bonus if a certain level of efficiency is maintained
- C. Hiring an independent consultant to study the operating efficiency of the firm
- D. Rejecting a profitable project to protect employee jobs
- E. Selling under-performing assets owned by the firm

44 The potential conflict of interest between a firm's owners and its managers is referred to as which type of conflict?

- A. Organisational
- B. Structural
- C. Formation
- D. Agency
- E. Territorial

45 Elizabeth is employed as a loans officer for the Commonwealth Bank. Her job falls into which of the following areas of finance?

- A. International finance
- B. Financial institutions
- C. Corporate finance
- D. Capital management
- E. Investments

46 Bruce is a security analyst working for Goldman Sachs JBWere. His job falls into which of the following areas of finance?

- A. International finance
- B. Financial institutions
- C. Corporate finance
- D. Capital management
- E. Investments

47 Which of the following is an example of a secondary-market transaction?

- A. ANZ bank issues new shares to a large funds manager in a private placement.
- B. The government issues new long-term bonds.
- C. Mary sells 1000 Qantas shares through her broker.
- D. BHP issues new bonds that will mature in ten years.
- E. None of the above are secondary-market transactions.

48 Which of the following is an example of a primary-market transaction?

- A. ANZ bank issues new shares to a large funds manager in a private placement.
- B. The ANZ bank sells 10-year government bonds that have five years to maturity.
- C. Mary sells 1000 Qantas shares through her broker.
- D. BHP issues new bonds that will mature in ten years.
- E. Both A and D are primary market transactions.

49 Tim works for a large manufacturing company and is now in charge of all fixed asset purchases. In other words, Tim is in charge of:

- A. capital structure management.
- B. asset allocation.
- C. risk management.
- D. capital budgeting.
- E. working capital management.

50 The Australian government has a tax claim on the cash flows of a corporation. This claim is defined as a claim by one of the firm's:

- A. residual owners
- B. shareholders
- C. financiers
- D. provisional partners
- E. stakeholders

51 Which one of the following correctly defines a common chain of command within a corporation?

- A. The chief accountant reports directly to the corporate treasurer.
- B. The treasurer reports directly to the board of directors.
- C. The chief financial officer reports directly to the board of directors.
- D. The credit manager reports directly to the chief accountant.
- E. The accountant reports directly to the chief financial officer.

52 A sole proprietorship:

- A. provides limited liability for its owner.
- B. involves significant legal costs during the formation process.
- C. has an unlimited life.
- D. has its profits taxed as personal income.
- E. can generally raise significant capital from non-owner sources.

53 Maria is the sole proprietor of an antique store that she has operated at the same location for the past 16 years. The store rents the space in which it is located but does own all of the inventory and fixtures. The store has an outstanding loan with the local bank but no other debt obligations. The loan has no specific loan covenants or assets pledged as security for the loan. Due to a sudden and unexpected downturn in the economy, the store is unable to generate sufficient funds to pay the loan payments due to the bank. Which of the following options does the bank have to collect the money it is owed?

- I. Sell the inventory and use the cash raised to apply to the debt
- II. Sell the store fixtures and use the cash raised to apply to the debt
- III. Take funds from Maria's personal account at the bank to pay the store's debt
- IV. Sell any assets Maria personally owns and apply the proceeds to the store's debt

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

54 Which one of the following is an advantage of being a limited partner?

- A. Non-taxable share of any profits
- B. Control over the daily operations of the firm
- C. Losses limited to capital invested
- D. Unlimited profits without risk of incurring a loss
- E. Active market for ownership interest

55 Which one of the following statements about a limited partnership is correct?

- A. All partners have their losses limited to their capital investment in the partnership
- B. All partners are treated equally
- C. There must be at least one general partner
- D. Equity financing is easy to obtain and unlimited
- E. Any partner can transfer his or her ownership interest without ending the partnership

56 Marti had an unexpected surprise when she ate her Kellogg's cereal this morning. She found a piece of metal mixed in her cereal. The potential liability that Marti has against this firm is that of a(n):

- A. general creditor
- B. debtholder
- C. shareholder
- D. stakeholder
- E. agent

57 Which one of the following statements is correct?

- A. All secondary markets are dealer markets.
- B. All secondary markets are broker markets.
- C. All stock trades between existing shareholders are secondary-market transactions.
- D. All stock transactions are secondary-market transactions.
- E. None of the options given here are correct.

58 Which one of the following statements related to securities dealers is correct?

- A. Dealers match buyers with sellers.
- B. Dealers buy and sell from their own inventory.
- C. Dealers operate exclusively in auction markets.
- D. Dealers are limited to trading non-listed stocks.
- E. None of the options given here are correct.

59 Which one of the following parties can sell shares of ABC stock in the primary market?

- A. ABC company
- B. Any corporation, other than the ABC company
- C. Institutional shareholder
- D. Private individual shareholder
- E. All of the options given here are correct

60 An auction market:

- A. handles primary market transactions exclusively.
- B. has a physical trading floor.
- C. is also referred to as an OTC market.
- D. is dealer-based market.
- E. All of the options given here are correct.



61 Which one of the following is a general characteristic of a securities broker?

- A. Trades from his or her own inventory
- B. Trades only foreign securities
- C. Trades listed securities in an auction market
- D. Is the principal trader of debt securities
- E. Trades at his own risk

62 Which one of the following transactions occurred in the primary market?

- A. Maria gave 100 shares of Telstra stock to her best friend.
- B. Gene purchased 300 shares of Telstra stock from Ted.
- C. Telstra Inc. sold 1000 shares of newly issued stock to Mike.
- D. Terry sold 3000 shares of Uno stock to his brother.
- E. The president of Trecco Inc. sold 500 shares of Trecco stock to his son.

63 Valerie bought 200 shares of BHP Billiton stock today. BHP Billiton stock has been trading for some time on the ASX. Valerie's purchase occurred in which market?

- A. Dealer market
- B. Over-the-counter market
- C. Secondary market
- D. Primary market
- E. All of the options given here are correct

64 Which one of the following is contained in a corporate constitution?

- A. Procedures for electing corporate directors
- B. Number of authorised shares
- C. Intended life of the corporation
- D. Business purpose of the corporation
- E. All of the options given here are correct

# Chapter 01 Testbank - Static Key

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*AACSB: Analytic*

*Difficulty: Hard*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

2 The person responsible for managing a firm's cash flow, credits and capital expenditures is called a:

- A. broker.
- B. stakeholder.
- C. chief accountant.
- D. controller.
- E.** treasurer.

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*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

3 The most important function of a financial market is:

- A. to facilitate the flow of funds between lenders and borrowers.
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- C. to provide information about an issuing company's financial situation.
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- D. financial position.
- E. cash position.

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*Section: 1.3 Forms of business organisation*

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- A. corporate by-laws.
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- A. organisational problem.
- B. personnel conflict.
- C. agency problem.**
- D. control issue.
- E. compensation issue.

*AACSB: Ethical*

*Difficulty: Easy*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*



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*Section: 1.6 Financial markets and the corporation*

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- C. private
- D. auction
- E. physical

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*Section: 1.6 Financial markets and the corporation*

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- III. Deciding how much long-term debt to assume
- IV. Controlling the amount of cash that is readily available

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- B. I and IV only
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- D. I, II and IV only
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*Section: 1.2 Business finance and the financial manager*

19 A corporation:

- A. can neither sue another party nor be sued.
- B. may not own property.
- C. may enter into contracts to borrow funds.
- D. can issue its own shares but cannot purchase shares in another entity.
- E. can be formed by an oral agreement amongst the shareholders.

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20 The primary goal of financial management is to maximise the:

- A. current net income.
- B. net working capital.
- C. number of shares outstanding.
- D. market value of the existing stock.
- E. capital structure.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.2 Identify the goal of financial management.*

*Section: 1.4 The goal of financial management*

21 Margie opened a used book store and is both the 100% owner and the store's manager. Which type of business entity does Margie own if she is personally liable for all the store's debts?

- A. Sole proprietorship
- B. Limited partnership
- C. Corporation
- D. Joint stock company
- E. General partnership

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

22 Will and Bill both enjoy sunshine, water and surfboards. Thus, the two friends decided to create a business together in Sydney renting surfboards, paddle boats and inflatable devices. Will and Bill will equally share in the decision making and in the profits or losses. Which type of business entity should they create if they both have full personal liability for the firm's debts?

- A. Sole proprietorship
- B. Limited partnership
- C. Corporation
- D. Joint stock company
- E. General partnership

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

23 Todd and Cathy created a firm that is a separate legal entity and will share ownership of that firm on a 50/50 basis. Which type of entity did they create if they have no personal liability for the firm's debts?

- A. Limited partnership
- B. Corporation**
- C. Sole proprietorship
- D. General partnership
- E. Public company

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

24 Which of the following individuals commonly use finance in the course of their job?

- I. Chief financial officers
- II. Accountants
- III. Security analysts
- IV. Strategic managers

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

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.1 Finance: a quick look*

25 Which one of the following functions should be assigned to the treasurer rather than the controller?

- A. Data processing
- B. Cost accounting
- C. Tax management
- D. Cash management**
- E. Financial accounting

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Learning Objective: 1.2 Identify the goal of financial management.*

*Section: 1.2 Business finance and the financial manager*

26 Which one of the following is a working capital decision?

- A. How should the firm raise additional capital to fund its expansion?
- B. What debt-equity ratio is best suited to our firm?
- C. What is the cost of debt financing?
- D. Which type of debt is best suited to finance our inventory?
- E. How much cash should the firm keep in reserve?**

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

27 The daily financial operations of a firm are primarily controlled by managing the:

- A. total debt level.
- B. working capital.**
- C. capital structure.
- D. capital budget.
- E. long-term liabilities.

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

28 Which one of the following statements correctly applies to a sole proprietorship?

- A. The business entity has an unlimited life.
- B. The ownership can easily be transferred to another individual.
- C. The owner enjoys limited liability for the firm's debts.
- D. Debt financing is easy to arrange in the firm's name.
- E. Obtaining additional equity is dependent on the owner's personal finances.**

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*



29 Which one of the following applies to a general partnership?

- A. The firm's operations must be controlled by a single partner.
- B.** Any one of the partners can be held solely liable for all of the partnership's debt.
- C. The profits of the firm are taxed as a separate entity.
- D. Each partner's liability for the firm's debts is limited to each partner's investment in the firm.
- E. The profits of a general partnership are taxed the same as those of a corporation.

*AACSB: Analytic*

*Difficulty: Hard*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

30 Which one of the following is a capital structure decision?

- A. Determining the optimal inventory level
- B.** Establishing the preferred debt-equity level
- C. Selecting new equipment to purchase
- D. Setting the terms of sale for credit sales
- E. Determining when suppliers should be paid

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

31 Working capital management includes which one of the following?

- A. Deciding which new projects to accept
- B. Deciding whether to purchase a new machine or fix a current machine
- C. Determining which customers will be granted credit
- D. Determining how many new shares of stock should be issued
- E. Establishing the target debt-equity ratio

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

32 In a general partnership, each partner is personally liable for:

- A. the partnership debts that he or she created.
- B. his or her proportionate share of all partnership debts regardless of which partner incurred that debt.
- C. the total debts of the partnership, even if he or she was unaware of those debts.
- D. the debts of the partnership up to the amount he or she invested in the firm.
- E. all personal and partnership debts incurred by any partner, even if he or she was unaware of those debts.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

33 A corporation:

- A. is ultimately controlled by its board of directors.
- B. is a legal entity separate from its owners.**
- C. is prohibited from entering into contractual agreements.
- D. has its identity defined by its by-laws.
- E. has its existence regulated by the rules set forth in its charter.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

34 Which of the following are advantages of the corporate form of organisation?

- I. Ability to raise large sums of equity capital
- II. Ease of ownership transfer
- III. Both profits and dividends are taxed
- IV. Limited liability for all owners

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

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

35 Which one of the following best matches the primary goal of financial management?

- A. Increasing the dollar amount of each sale
- B. Increasing traffic flow within the firm's stores
- C. Transforming fixed costs into variable costs
- D. Increasing the firm's liquidity
- E. Increasing the market value of the firm

*AACSB: Analytic*

*Difficulty: Medium*

*Learning Objective: 1.2 Identify the goal of financial management.*

*Section: 1.4 The goal of financial management*

36 What is the goal of financial management for a sole proprietorship?

- A. Maximise net income given the current resources of the firm
- B. Decrease long-term debt to reduce the risk to the owner
- C. Minimise the tax impact on the proprietor
- D. Maximise the market value of the equity
- E. Minimise the reliance on fixed costs

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.2 Identify the goal of financial management.*

*Section: 1.4 The goal of financial management*

37 Which one of the following is most likely to create a situation where an agency conflict could arise?

- A. Increasing the size of a firm's operations
- B. Downsizing a firm
- C. Separating management from ownership
- D. Decreasing employee turnover
- E. Reducing both management and non-management salaries

*AACSB: Ethics*

*Difficulty: Easy*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

38 Which one of the following is most likely to align management's priorities with shareholders' interests?

- A. Increasing employee retirement benefits
- B. Compensating managers with shares that must be held for three years before the shares can be sold
- C. Allowing a manager to decorate his or her own office once he or she has been in that office for a period of three years or more
- D. Increasing the number of paid holidays that long-term employees are entitled to receive
- E. Allowing employees to retire early with full retirement benefits

*AACSB: Ethics*

*Difficulty: Medium*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

39 Which of the following are effective means of aligning management goals with shareholder interests?

- I. Employee share options
- II. Threat of a takeover
- III. Management bonuses tied to performance goals
- IV. Threat of a proxy fight

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

*AACSB: Ethics*

*Difficulty: Medium*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

40 Financial institutions are:

- A. institutions that primarily invest in real estate.
- B.** institutions that primarily deal in financial matters.
- C. institutions that deal in second-hand equipment.
- D. institutions that engage in manufacturing.
- E. none of the above.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.1 Finance: a quick look*

41 The goal of a financial manager should be:

- A. to maximise next year's profit.
- B. to minimise next year's cost.
- C. to maximise the value of the existing owners' equity.
- D. to take no risks with shareholders' investments.
- E. none of the above are appropriate goals.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.2 Identify the goal of financial management.*

*Section: 1.4 The goal of financial management*

42 Which of the following is an example of the agency problem?

- A. Managers always invest in projects that have appropriate returns and that will increase shareholder wealth.
- B. Managers resign when they believe they have not always acted in the best interests of shareholders.
- C. Managers conduct an acquisition program purely to increase the size of an organisation.
- D. Managers do not look for new projects as they want to avoid business risk.
- E. Both C and D are examples of the agency problem.

*AACSB: Ethics*

*Difficulty: Medium*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

43 Which one of the following situations is most likely to create an agency conflict?

- A. Compensating a manager based on his or her division's net income
- B. Giving all employees a bonus if a certain level of efficiency is maintained
- C. Hiring an independent consultant to study the operating efficiency of the firm
- D. Rejecting a profitable project to protect employee jobs
- E. Selling under-performing assets owned by the firm

*AACSB: Ethics*

*Difficulty: Medium*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

44 The potential conflict of interest between a firm's owners and its managers is referred to as which type of conflict?

- A. Organisational
- B. Structural
- C. Formation
- D. Agency
- E. Territorial

*AACSB: Ethics*

*Difficulty: Easy*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*



45 Elizabeth is employed as a loans officer for the Commonwealth Bank. Her job falls into which of the following areas of finance?

- A. International finance
- B. Financial institutions**
- C. Corporate finance
- D. Capital management
- E. Investments

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.1 Finance: a quick look*

46 Bruce is a security analyst working for Goldman Sachs JBWere. His job falls into which of the following areas of finance?

- A. International finance
- B. Financial institutions
- C. Corporate finance
- D. Capital management
- E. Investments**

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.1 Finance: a quick look*

47 Which of the following is an example of a secondary-market transaction?

- A. ANZ bank issues new shares to a large funds manager in a private placement.
- B. The government issues new long-term bonds.
- C. Mary sells 1000 Qantas shares through her broker.
- D. BHP issues new bonds that will mature in ten years.
- E. None of the above are secondary-market transactions.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

48 Which of the following is an example of a primary-market transaction?

- A. ANZ bank issues new shares to a large funds manager in a private placement.
- B. The ANZ bank sells 10-year government bonds that have five years to maturity.
- C. Mary sells 1000 Qantas shares through her broker.
- D. BHP issues new bonds that will mature in ten years.
- E. Both A and D are primary market transactions.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

49 Tim works for a large manufacturing company and is now in charge of all fixed asset purchases. In other words, Tim is in charge of:

- A. capital structure management.
- B. asset allocation.
- C. risk management.
- D. capital budgeting.
- E. working capital management.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

50 The Australian government has a tax claim on the cash flows of a corporation. This claim is defined as a claim by one of the firm's:

- A. residual owners
- B. shareholders
- C. financiers
- D. provisional partners
- E. stakeholders

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

51 Which one of the following correctly defines a common chain of command within a corporation?

- A. The chief accountant reports directly to the corporate treasurer.
- B. The treasurer reports directly to the board of directors.
- C. The chief financial officer reports directly to the board of directors.
- D. The credit manager reports directly to the chief accountant.
- E. The accountant reports directly to the chief financial officer.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.1 Discuss the basic types of financial management decisions and the role of the financial manager.*

*Section: 1.2 Business finance and the financial manager*

52 A sole proprietorship:

- A. provides limited liability for its owner.
- B. involves significant legal costs during the formation process.
- C. has an unlimited life.
- D. has its profits taxed as personal income.
- E. can generally raise significant capital from non-owner sources.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

53 Maria is the sole proprietor of an antique store that she has operated at the same location for the past 16 years. The store rents the space in which it is located but does own all of the inventory and fixtures. The store has an outstanding loan with the local bank but no other debt obligations. The loan agreement contains no specific loan covenants or assets pledged as security for the loan. Due to a sudden and unexpected downturn in the economy, the store is unable to generate sufficient funds to pay the loan payments due to the bank. Which of the following options does the bank have to collect the money it is owed?

- I. Sell the inventory and use the cash raised to apply to the debt
- II. Sell the store fixtures and use the cash raised to apply to the debt
- III. Take funds from Maria's personal account at the bank to pay the store's debt
- IV. Sell any assets Maria personally owns and apply the proceeds to the store's debt

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

*AACSB: Analytic  
Difficulty: Medium*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.  
Section: 1.3 Forms of business organisation*

54 Which one of the following is an advantage of being a limited partner?

- A. Non-taxable share of any profits
- B. Control over the daily operations of the firm
- C. Losses limited to capital invested
- D. Unlimited profits without risk of incurring a loss
- E. Active market for ownership interest

*AACSB: Analytic  
Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.  
Section: 1.3 Forms of business organisation*

55 Which one of the following statements about a limited partnership is correct?

- A. All partners have their losses limited to their capital investment in the partnership
- B. All partners are treated equally
- C. There must be at least one general partner
- D. Equity financing is easy to obtain and unlimited
- E. Any partner can transfer his or her ownership interest without ending the partnership

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

56 Marti had an unexpected surprise when she ate her Kellogg's cereal this morning. She found a piece of metal mixed in her cereal. The potential liability that Marti has against this firm is that of a(n):

- A. general creditor
- B. debtholder
- C. shareholder
- D. stakeholder
- E. agent

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.4 Describe the conflicts of interest that can arise between managers and owners.*

*Section: 1.5 The agency problem and control of the corporation*

57 Which one of the following statements is correct?

- A. All secondary markets are dealer markets.
- B. All secondary markets are broker markets.
- C. All stock trades between existing shareholders are secondary-market transactions.
- D. All stock transactions are secondary-market transactions.
- E. None of the options given here are correct.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

58 Which one of the following statements related to securities dealers is correct?

- A. Dealers match buyers with sellers.
- B. Dealers buy and sell from their own inventory.
- C. Dealers operate exclusively in auction markets.
- D. Dealers are limited to trading non-listed stocks.
- E. None of the options given here are correct.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

59 Which one of the following parties can sell shares of ABC stock in the primary market?

- A. ABC company
- B. Any corporation, other than the ABC company
- C. Institutional shareholder
- D. Private individual shareholder
- E. All of the options given here are correct

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

60 An auction market:

- A. handles primary market transactions exclusively.
- B. has a physical trading floor.
- C. is also referred to as an OTC market.
- D. is dealer-based market.
- E. All of the options given here are correct.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*



61 Which one of the following is a general characteristic of a securities broker?

- A. Trades from his or her own inventory
- B. Trades only foreign securities
- C. Trades listed securities in an auction market
- D. Is the principal trader of debt securities
- E. Trades at his own risk

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

62 Which one of the following transactions occurred in the primary market?

- A. Maria gave 100 shares of Telstra stock to her best friend.
- B. Gene purchased 300 shares of Telstra stock from Ted.
- C. Telstra Inc. sold 1000 shares of newly issued stock to Mike.
- D. Terry sold 3000 shares of Uno stock to his brother.
- E. The president of Trecco Inc. sold 500 shares of Trecco stock to his son.

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

63 Valerie bought 200 shares of BHP Billiton stock today. BHP Billiton stock has been trading for some time on the ASX. Valerie's purchase occurred in which market?

- A. Dealer market
- B. Over-the-counter market
- C. Secondary market
- D. Primary market
- E. All of the options given here are correct

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.6 Financial markets and the corporation*

64 Which one of the following is contained in a corporate constitution?

- A. Procedures for electing corporate directors
- B. Number of authorised shares
- C. Intended life of the corporation
- D. Business purpose of the corporation
- E. All of the options given here are correct

*AACSB: Analytic*

*Difficulty: Easy*

*Learning Objective: 1.3 Compare the financial implications of the different forms of business organisation.*

*Section: 1.3 Forms of business organisation*

# Chapter 01 Testbank - Static Summary

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