**Chapter 1: The Financial Manager and the Firm**

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: FSA  AICPA: Resource Management | |
| 1. | The financial manager is responsible for making decisions that are in the best interests of the firm's owners. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 2. | A patent is a productive asset for a technology-based firm. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 3. | Intangible assets generate most of a manufacturing firm's cash flows. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: FSA  AICPA: Resource Management | |
| 4. | The most fundamental way that a business can grow in size is the reinvestment of cash flows or earnings. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 5. | A firm that goes bankrupt will always be liquidated | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 6. | Capital assets are generally short term in nature. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Budget Preparation  AICPA: Resource Management | |
| 7. | A good capital budgeting or investment decision is one in which the perceived benefits are worth more to the firm than the cost of the asset. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Investment Decisions  AICPA: Strategic/Critical Thinking | |
| 8. | Investment decisions determine how firms raise cash to pay for their investments. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Budget Preparation  AICPA: Resource Management | |
| 9. | Net working capital is the dollar difference between a firm’s total current assets and total liabilities. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 10. | A sole proprietorship is an owner's only business. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Global Perspective | |
| 11. | Corporations hold the majority of all business assets and generate the majority of business revenues and profits in the United States. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 12. | Unlimited liability means that the owner of a firm is responsible for paying all the bills of the firm in the event of a bankruptcy. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 13. | The process of transferring ownership of a sole proprietorship is relatively easy compared to a public corporation. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 14. | General partners in a business have limited liability with regard to money owed to creditors. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 15. | C-Corporations do not have their income subject to double taxation. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 16. | Privately held corporations are allowed to have stockholders. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 3  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 17. | The treasurer of a corporation usually reports to the CFO of the firm. | |
| A) | True |
| B) | False |
| Ans: | A |

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|  | Format:  True/False  Learning Objective:  LO 3  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Reporting  AICPA: Reporting | |
| 18. | The external auditors of the firm report their findings directly to the CFO of the firm. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 4  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Performance Measurement  AICPA: Strategic/Critical Thinking | |
| 19. | Maximizing revenue should be the goal of the firm. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 20. | An agency conflict can arise when the agent of the firm is the sole owner of the firm. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 21. | The owners of a firm are unaffected by agency costs. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  True/False  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Professional Demeanor | |
| 22. | Fraudulent business practices do not affect the growth of the financial markets. | |
| A) | True |
| B) | False |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 23. | To start a business, the owners need | |
| A) | a market where there is demand for their product. |
| B) | a clear vision of what products or services they want to produce. |
| C) | the know-how to successfully market their product. |
| D) | all of the above. |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 24. | A stakeholder is: | |
| A) | someone geographically close to the firm's headquarters. |
| B) | someone who has a claim on the cash flows of the firm. |
| C) | some government agency. |
| D) | all of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 25. | If you have loaned capital to a firm, then you could be | |
| A) | a manager. |
| B) | a stakeholder. |
| C) | a partner. |
| D) | all of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 26. | Which of the following is a stakeholder? | |
| A) | An employee |
| B) | A lender |
| C) | The IRS |
| D) | All of the above |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 27. | A trademark is an example of: | |
| A) | a liquid asset. |
| B) | an intangible asset. |
| C) | a contingent asset. |
| D) | none of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management  28. What is not a characteristic of a shareholder?   1. Expects to receive dividends 2. Expects to receive a capital gain on their investment 3. Expects to receive interest 4. Expects to have rights as defined in the corporation's charter and bylaws  |  |  | | --- | --- | | Ans: | C |  |  |  | | --- | --- | |  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | | | |
| 29. | Which of the following is a basic source of funds for a firm? | |
| A) | Debt |
| B) | Equity |
| C) | Asset liquidations |
| D) | Both A and B |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 30. | The cash remaining with the firm after paying its operating expenses, making payments to creditors, and taxes is called: | |
| A) | earnings per share. |
| B) | capital contributed in excess of par. |
| C) | residual cash flow. |
| D) | assets. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 31. | Cash dividends are paid out of: | |
| A) | residual cash flows. |
| B) | liquidated assets. |
| C) | long-term debt. |
| D) | all of the above. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 32. | Current liabilities are liabilities that: | |
| A) | will be converted to cash within a year. |
| B) | must be paid within a year. |
| C) | will be converted to equity within a year. |
| D) | none of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Budget Preparation  AICPA: Resource Management   |  |  |  | | --- | --- | --- | | 33. | Current assets are assets that: | | | A) | will be converted to cash within a year. | | B) | must be paid within a year. | | C) | will be converted to equity within a year. | | D) | must be depreciated. | | Ans: | A |      |  |  | | --- | --- | |  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Budget Preparation  AICPA: Resource Management | | |
| 34. | The capital budgeting decision process can be described as | |
| A) | how a firm's day-to-day financial matters should be managed. |
| B) | how a firm should finance its assets. |
| C) | which productive assets a firm should purchase. |
| D) | all of the above. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 35. | Working capital management decisions help to determine: | |
| A) | how a firm's day-to-day financial matters should be managed. |
| B) | how a firm should finance its assets. |
| C) | which productive assets a firm should purchase. |
| D) | all of the above. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 36. | Capital budgeting decisions generally have the most effect on: | |
| A) | the asset portion of the balance sheet. |
| B) | the short-term portion of the balance sheet. |
| C) | the current liability portion of the balance sheet. |
| D) | all of the above. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Corporate Finance  AICPA: Strategic/Critical Thinking | |
| 37. | A good capital budgeting decision is: | |
| A) | one in which the perceived benefits of the project are equal to the cost of the asset. |
| B) | one in which the perceived benefits of the project are less than the cost of the asset. |
| C) | one in which the perceived benefits of the project are more than the cost of the asset. |
| D) | all of the above. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 38. | Financial markets in which equity and debt instruments with maturities greater than one year are traded are called: | |
| A) | money markets. |
| B) | capital markets. |
| C) | Over the counter exchange. |
| D) | none of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 1  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management  39. Financial markets in which equity and debt instruments with maturities less than one year are traded are called:  A) money markets.  B) capital markets.  C) Over the counter exchange.  D) none of the above.  Ans: A  Format: Multiple Choice  Learning Objective: LO 1  Level of Difficulty: Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Resource Management | |
| 40. | The profitability of a firm can be negatively affected by: | |
| A) | too much inventory. |
| B) | too little inventory. |
| C) | either A or B. |
| D) | neither A nor B. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 41. | Which of the following business organizational form(s) subject(s) the owner(s) to unlimited liability? | |
| A) | Sole proprietorship |
| B) | General partnership |
| C) | Corporation |
| D) | Both A and B |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 42. | Which of the following business organizational form(s) create(s) a tax liability on income at the personal income tax rate? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Corporation |
| D) | Both A and B |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 43. | Which of the following business organizational form(s) is/are the easiest one(s) to raise capital? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Corporation |
| D) | Both A and B |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 44. | Which of the following type of owner is protected by limited liability? | |
| A) | A sole proprietor |
| B) | A general partner |
| C) | Owner of a corporation |
| D) | None of the above |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 45. | Which of the following type of owner cannot be engaged in managing the business? | |
| A) | A sole proprietor |
| B) | A general partner |
| C) | A limited partner |
| D) | None of the above |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Global Perspective | |
| 46. | Which form of business organization generate(s) the majority of business revenues and profits in the United States? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Corporation |
| D) | Both A and B |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 47. | Which organizational form is best suited for a firm to sell its securities to the market? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Private corporation |
| D) | Public corporation |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Legal/Regulatory Perspective | |
| 48. | Which of the following organizational forms is subject to the Securities and Exchange Commission (SEC) regulations? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Private corporation |
| D) | Public corporation |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 49. | Which organizational form best enables the owners of a firm to monitor the professional conduct of each other owners of the firm? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Private corporation |
| D) | Public corporation |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 2  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 50. | Which of the following is considered a hybrid organizational form? | |
| A) | Sole proprietorship |
| B) | Partnership |
| C) | Corporation |
| D) | Limited liability partnership |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 3  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Resource Management | |
| 51. | In a public corporation, which of the following reports directly to the owners of a firm? | |
| A) | CFO |
| B) | CEO |
| C) | Board of directors |
| D) | Audit committee |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 3  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Resource Management | |
| 52. | Which of the following is primarily responsible for managing all financial aspects of a firm? | |
| A) | CFO |
| B) | CEO |
| C) | Board of directors |
| D) | Audit committee |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 3  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Reporting; Internal Controls  AICPA: Reporting; Resource Management | |
| 53. | Which of the following is responsible for performing an independent audit of a firm's financial statements? | |
| A) | CFO |
| B) | CEO |
| C) | CPA firm |
| D) | Audit committee |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Internal Controls; Reporting  AICPA: Reporting | |
| 54. | How is a CPA firm insulated from being pressured by management? | |
| A) | The audit committee approves hiring, firing, and paying fees to external auditors. |
| B) | The chairman of the board approves the external auditor's fees as well as the engagement letter. |
| C) | The IRS approves the external auditor's fees as well as the engagement letter. |
| D) | The CPA firm is not insulated from management. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 3  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Resource Management | |
| 55. | Among the following, who is typically responsible for managing a large corporation’s financial function? | |
| A) | The CEO |
| B) | The Chairman of the board |
| C) | The Vice-President - Production |
| D) | The CFO |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Performance Measurement  AICPA: Strategic/Critical Thinking | |
| 56. | From the owner’s perspective, which of the following should be the goal of a firm? | |
| A) | Profit maximization |
| B) | Revenue maximization |
| C) | Stockholder’s wealth maximization |
| D) | Tax minimization |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 57. | When analysts and investors determine the value of a firm's stock, they should consider: | |
| A) | the size of the expected cash flows associated with owning the stock. |
| B) | the timing of the cash flows. |
| C) | the riskiness of the cash flows. |
| D) | all of the above. |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Strategic/Critical Thinking |

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| 58. | From the owner’s perspective, which of the following should be the primary focus of managers? | |
| A) | Profit maximization |
| B) | Revenue maximization |
| C) | COGS Minimization |
| D) | None of the above should be the primary focus. |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Corporate Finance  AICPA: Strategic/Critical Thinking | |
| 59. | Which of the following would generally increase shareholder’s wealth? | |
| A) | Receiving cash flows sooner rather than later. |
| B) | Increased government regulation. |
| C) | Receiving larger cash flows. |
| D) | Rapid growth in the overall economy. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 4  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Budget Preparation  AICPA: Strategic/Critical Thinking | |
| 60. | Which of the following factors or activities can be controlled by a firm’s managers? | |
| A) | Capital budgeting |
| B) | The level of economic activity |
| C) | The level of market interest rates |
| D) | Stock market conditions |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 61. | One reason for the existence of agency problems between managers and stockholders is that: | |
| A) | Management is separate from ownership. |
| B) | Managers know how to manage the firm better than stockholders. |
| C) | Stockholders have unreasonable expectations about managerial performance. |
| D) | None of the above. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 62. | Who among the following is the “principal” in the agency relationship of a corporation? | |
| A) | A company engineer |
| B) | The CEO of the firm |
| C) | A stockholders |
| D) | The board of directors |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Legal/Regulation Perspective | |
| 63. | \_\_\_\_\_ has (have) a legal responsibility to represent stockholders’ interests. | |
| A) | A chairman |
| B) | A CEO |
| C) | A corporation’s board of directors |
| D) | all of the above |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 64. | An example of an agency cost is: | |
| A) | a manager turning down a value-contributing project because of its risks. |
| B) | a manager expensing a lavish dinner on the company expense report. |
| C) | a manager using too little debt within the firm's capital structure because of the additional risk associated with debt. |
| D) | all of the above. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Communication  IMA: Business Economics  AICPA: Leadership | |
| 65. | Which of the following mechanisms can help align the behavior of managers with the goals of stockholders? | |
| A) | Well-designed management compensation |
| B) | Managerial labor market |
| C) | An independent board of directors |
| D) | All of the above |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Comprehension  AACSB: Analytic  IMA: Internal Controls  AICPA: Risk Analysis | |
| 66. | If a firm has had an agency conflict which is reflected by a poor performing stock for a long period of time, then the firm may become a target of \_\_\_\_\_ | |
| A) | an SEC investigation. |
| B) | a corporate raider. |
| C) | an IRS investigation. |
| D) | a bankruptcy lawyer. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 67. | Executives that repeatedly put their own interests before that of the firm may find that they have difficulty in finding another job after their current one. This is an example of | |
| A) | the managerial labor market disciplining managers. |
| B) | the market for corporate control. |
| C) | the board of directors affecting the prospects of a manager. |
| D) | none of the above. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Resource Management | |
| 68. | Who among the following is responsible for setting an agenda at meetings of the board of directors? | |
| A) | Chairperson of the board of directors |
| B) | President |
| C) | Nominating committee |
| D) | Manager |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Resource Management | |
| 69. | A director who is not an employee of the firm is called | |
| A) | an executive director. |
| B) | an inside director. |
| C) | an independent director. |
| D) | an official director. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: FSA  AICPA: Legal/Regulatory Perspective | |
| 70. | Which of the following is **NOT** one of the goals of the Sarbanes-Oxley Act of 2002? | |
| A) | Attain greater board independence |
| B) | Establish compliance programs |
| C) | Establish ethics programs |
| D) | Dictate maximum compensation levels |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Reporting  AICPA: Reporting  71. Which of the following is not an example of an agency cost?  A) a lavish dinner or trip.  B) a missed investment opportunity.  C) a cost that results from a conflict of interest between the agent and the principal.  D) the cost of a new piece of equipment.  Ans: D  Format: Multiple Choice  Learning Objective: LO 5  Level of Difficulty: Medium  Bloomcode: Knowledge  AACSB: Analytic  IMA: FSA  AICPA: Legal/Regulatory Perspective | |
| 72. | Which of the following does the audit committee have unconditional authority to do? | |
| A) | Audit the personal bank account of the CEO |
| B) | Question any person employed by the firm |
| C) | Audit the compensation files of firms in the same industry |
| D) | None of the above |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 5  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: FSA  AICPA: Legal/Regulatory Perspective | |
| 73. | What is the major complaint by firms about the Sabanes-Oxley Act of 2002? | |
| A) | The legislative maximum allowable compensation for a CEO. |
| B) | The legal requirement to disclose project information. |
| C) | The cost of compliance. |
| D) | The cost of maintaining an SEC employed officer at the firm's premises. |
| Ans: | C |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective  74. What is one of the actions that is not an objective of the Sarbanes-Oxley Act of 2002?  A) reducing agency costs in corporations .  B) restoring ethical conduct within the business sector.  C) improving the integrity of accounting reporting system within firms.  D) insuring that an IRS employee is present at the firm’s headquarters.  Ans: D  Format: Multiple Choice  Learning Objective: LO 6  Level of Difficulty: Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 75. | A society's ideas about what actions are right and wrong are termed as: | |
| A) | rules and policies. |
| B) | ethics. |
| C) | laws. |
| D) | unwritten laws. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 76. | The golden rule is an example of | |
| A) | a current law. |
| B) | a civil law. |
| C) | an unworkable rule in financial markets. |
| D) | an ethical norm. |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Global Business  AICPA: Industry/Global Perspective | |
| 77. | An example of an economy that had trouble in establishing a stock market and attracting foreign investment is | |
| A) | Russia. |
| B) | China. |
| C) | The Czech Republic. |
| D) | Japan. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 78. | Corruption in business | |
| A) | creates inefficiencies in an economy. |
| B) | inhibits growth in an economy. |
| C) | slows the rate of economic growth in a country. |
| D) | all of the above |
| Ans: | D |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 79. | Which corporate officer, when he or she is guilty of serious misconduct, can subject the firm to the heavy losses in financial wealth? | |
| A) | Marketing Manager |
| B) | CFO |
| C) | Chief Technology Officer |
| D) | Chief Risk Officer |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 80. | An officer of a firm who is a majority owner in a competing firm will probably be subject to | |
| A) | an IRS audit. |
| B) | a conflict of interest with his/her stockholders. |
| C) | arbitrage profit returns to the SEC. |
| D) | an FBI investigation. |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Business Economics  AICPA: Industry/Sector Perspective | |
| 81. | \_\_\_\_\_ occur(s) when one party in a business transaction has information that is unavailable to the other parties in the transaction. | |
| A) | Profits |
| B) | Information asymmetry |
| C) | Information efficiency |
| D) | None of the above |
| Ans: | B |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Decision Analysis  AICPA: strategic/critical Thinking | |
| 82. | With regard to information, a central idea of fairness suggests that: | |
| A) | decisions should be made on an even playing field. |
| B) | insiders should be able to trade whenever they want. |
| C) | insiders should never be able to trade. |
| D) | outsiders should not be allowed to trade since, by definition, they are at a disadvantage. |
| Ans: | A |

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|  | Format:  Multiple Choice  Learning Objective:  LO 6  Level of Difficulty:  Medium  Bloomcode: Comprehension  AACSB: Ethics  IMA: Business Applications  AICPA: Legal/Regulatory Perspective | |
| 83. | The legal system and market forces impose substantial costs on individuals and institutions that engage in unethical behavior. Which of the following would not be an example of these costs? | |
| A) | Financial losses |
| B) | Legal fines |
| C) | Agency conflicts |
| D) | Jail time |
| Ans: | C |

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|  | Format:  Essay  Learning Objective:  LO 4  Level of Difficulty: Easy  Bloomcode: Knowledge  AACSB: Analytic  IMA: Performance Measurement  AICPA: Industry/Sector Perspective | |
| 84. | Explain what should be the goal of a firm. | |
| Ans: | The goal of a firm should be to maximize stockholders’ wealth, which in most cases is equivalent to maximizing the price of the shares of the firm. Note that this is not the same as maximizing profits, since maximizing profits can occur while taking on too much risk (which can lower the value of the stockholders’ investment). Maximizing profits also does not take the timing of the profits into account. Profits, moreover, should not be confused with cash. Maximizing stockholders’ wealth is also not the same as minimizing risk, which can occur without taking any risks. |

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|  | Format:  Essay  Learning Objective:  LO 5  Level of Difficulty: Medium  Bloomcode: Application  AACSB: Ethics  IMA: Performance Measurement  AICPA: Strategic/Critical Thinking | |
| 85. | Explain how agency costs might be found within a firm whose CEO owns no shares in the firm and whose compensation package is unaffected by the profits (cash or accounting profits) of the firm. | |
| Ans: | Since the manager has no ownership interest in the firm, he/she has no incentive to make the cash profits of the firm as high as possible. In fact, he/she has a personal incentive to have the firm pay for as many personal luxuries as possible since his/her compensation package will be completely unaffected by the decision to purchase the luxuries. In a firm like the above, we might expect the firm to expend a material amount of resources on items that the manager should probably pay for him/herself. |

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|  | Format:  Essay  Learning Objective:  LO 6  Level of Difficulty: Medium  Bloomcode: Application  AACSB: Ethics  IMA: Business Applications  AICPA: Problem Solving and Decision Making | |
| 86. | You have a friend who tells you that ethics are completely unimportant in business since a number of laws have been set up for us to know the rules of the game. Comment. | |
| Ans: | Despite heavy regulation, the financial sector has a long and rich history of financial scandals. While a good many of the scandals are due to laws that have been disregarded, many of the scandals began as ethical lapses. This suggests that laws are not enough to preclude behavior that is detrimental to the well-functioning of the markets. |