***Principles of Managerial Finance, 14e* (Gitman/Zutter)**

**Chapter 1 The Role of Managerial Finance**

1.1 Define finance and the managerial finance function.

1) A financial analyst is responsible for maintaining and controlling a firm's daily cash balances.

Answer: FALSE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

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

Answer: TRUE

Diff: 1

Topic: What is Finance?

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

3) Financial managers administer the financial affairs of all types of businesses such as private and public, large and small, and profit seeking and not for profit.

Answer: TRUE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

4) Financial managers perform different tasks developing a financial plan or budget, extending credit to customers, evaluating proposed large expenditures, and raising money to fund a firm's operations.

Answer: TRUE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

5) A capital expenditures analyst/manager is responsible for the evaluation and recommendation of proposed asset investments.

Answer: TRUE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

6) A controller administers a firm's credit policy by analyzing or managing the evaluation of credit applications, extending credit, and monitoring and collecting accounts receivable.

Answer: FALSE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

7) In large companies, CEOs are legally responsible for coordinating the assets and liabilities of the employees' pension fund.

Answer: FALSE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

8) A controller typically handles the accounting activities, such as tax management, data processing, financial accounting, and cost accounting.

Answer: TRUE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

9) Managerial finance is concerned with design and delivery of advice and financial products to individuals, businesses, and governments.

Answer: FALSE

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

10) \_\_\_\_\_\_\_\_ is concerned with design and delivery of advice and financial products to individuals, businesses, and governments.

A) Managerial finance

B) Auditing services

C) Financial services

D) Cost accounting

Answer: C

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

11) Managerial finance \_\_\_\_\_\_\_\_.

A) involves tasks such as budgeting, financial forecasting, cash management, and funds procurement

B) involves the design and delivery of advice and financial products

C) recognizes funds on an accrual basis

D) devotes the majority of its attention to the collection and presentation of financial data

Answer: A

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

12) Finance is \_\_\_\_\_\_\_\_.

A) the system of verifying, analyzing, and recording business transactions

B) the science of the production, distribution, and consumption of goods and services

C) the art and science of managing money

D) the art of merchandising products and services

Answer: C

Diff: 1

Topic: What is Finance?

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

13) Which of the following is an area of career opportunities in financial services?

A) supply chain management

B) personal financial planning

C) auditing of financial statements

D) production planning

Answer: B

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

14) Which of the following is an area of career opportunities in managerial finance?

A) investment

B) real estate and insurance

C) capital expenditures management

D) personal financial planning

Answer: C

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

15) Which of the following is a duty of a financial manager in a business firm?

A) developing marketing plans

B) controlling the stock price

C) raising financial resources

D) auditing financial records

Answer: C

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

16) A \_\_\_\_\_\_\_\_ is responsible for evaluating and recommending proposed long-term investments.

A) financial analyst

B) credit manager

C) pension fund manager

D) capital expenditures manager

Answer: D

Diff: 1

Topic: Career Opportunities in Finance

Learning Obj.: LG 1

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

1.2 Describe the legal forms of business organization.

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

Answer: TRUE

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

2) In partnerships, partners can readily transfer their wealth to other partners.

Answer: FALSE

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

3) A sole proprietor has unlimited liability; his or her total investment in the business, but not his or her personal assets, can be taken to satisfy creditors.

Answer: FALSE

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

4) In a limited partnership, all partners' liabilities are limited to their investment in the partnership.

Answer: TRUE

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

5) A treasurer is responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.

Answer: FALSE

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

6) Which of the following legal forms of organization is most expensive to organize?

A) sole proprietorships

B) partnerships

C) corporations

D) limited partnership

Answer: C

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

7) Which of the following legal forms of organization has the ease of dissolution?

A) sole proprietorships

B) partnerships

C) limited partnerships

D) corporations

Answer: A

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

8) Under which of the following legal forms of organization is ownership readily transferable?

A) sole proprietorships

B) partnerships

C) limited partnerships

D) corporations

Answer: D

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

9) Which of the following forms of organizations is the easiest to form?

A) sole proprietorships

B) limited liability corporation

C) limited partnership

D) S-corporations

Answer: A

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

10) A major weakness of a partnership is \_\_\_\_\_\_\_\_.

A) the difficulty in maintaining owners' control

B) the difficulty in liquidating or transferring ownership

C) the double taxation of income

D) its high organizational costs

Answer: B

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

11) Which of the following is a strength of a corporation?

A) low taxes

B) limited liability

C) low organization costs

D) less government regulation

Answer: B

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

12) Which of the following legal forms of organizations is characterized by unlimited liability?

A) sole proprietorship

B) limited partnership

C) corporation

D) C-corporation

Answer: A

Diff: 2

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

13) Which of the following is the purest and most basic form of corporate ownership?

A) bond

B) notes

C) common stock

D) preferred stock

Answer: C

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

14) Which of the following is true of a partnership and a corporation?

A) In a corporation, income is taxed at the corporate level; whereas, in a partnership, income is taxed twice.

B) In a partnership, income is taxed at the corporate level; whereas, in a corporation, income is taxed twice.

C) Income from both forms of organizations are double-taxed.

D) In a partnership, income is exempted from tax up to $10 million; whereas, in a corporation, income is taxed twice.

Answer: B

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

15) Which of the following is true of sole proprietorships and corporations?

A) It is difficult to transfer ownership of corporations compared to that of sole proprietorships.

B) Income from both forms of organizations are taxed only at the corporate level.

C) Both sole proprietorships and corporations are equally scrutinized and regulated by government bodies.

D) In sole proprietorships, owners have unlimited liability; whereas, in corporations, owners have limited liability.

Answer: D

Diff: 1

Topic: Legal Forms of Business Organization

Learning Obj.: LG 2

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

1.3 Describe the goal of the firm, and explain why maximizing the value of the firm is an appropriate goal for a business.

1) High net cash flow with fixed risk is generally associated with a higher share price.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

2) When considering a firm's financial decision alternative, financial managers should accept only those actions that are expected to increase the firm's profitability.

Answer: FALSE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

3) To achieve the goal of profit maximization for each alternative being considered, a financial manager would select the one that is expected to result in the highest return.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

4) Dividend payments change directly with changes in earnings per share.

Answer: FALSE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

5) The wealth of corporate owners is measured by the share price of the stock.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

6) Risk, the magnitude and timing of cash flows are the key determinants of share price, which represent the wealth of the owners in the firm.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

7) A higher earnings per share (EPS) does not necessarily translate into a higher stock price.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Reflective Thinking Skills

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

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

9) When considering a firm's financial decision alternative, financial managers should accept only those actions that are expected to maximize shareholder value.

Answer: TRUE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

10) An increase in a firm's risk will always result in a higher share price since the stockholder must be compensated for the greater risk.

Answer: FALSE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

11) Stockholders expect to earn higher rates of return on investments with lower risk and lower rates of return on investments with higher risk.

Answer: FALSE

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

12) The goal of business ethics is to motivate business and market participants to adhere to both the letter and the spirit of laws and regulations in all aspects of business and professional practice.

Answer: TRUE

Diff: 1

Topic: The Role of Business Ethics

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

13) The primary goal of a financial manager is \_\_\_\_\_\_\_\_.

A) minimizing risk

B) maximizing profit

C) maximizing wealth

D) minimizing return

Answer: C

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

14) Corporate owners receive return \_\_\_\_\_\_\_\_.

A) by realizing gains through increases in share price and interest earnings

B) by realizing gains through increases in share price and cash dividends

C) through capital appreciation and retained earnings

D) through interest earnings and earnings per share

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

15) The wealth of the owners of a corporation is represented by \_\_\_\_\_\_\_\_.

A) profits

B) earnings per share

C) share value

D) cash flow

Answer: C

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

16) Wealth maximization as the goal of a firm implies enhancing the wealth of \_\_\_\_\_\_\_\_.

A) the auditors

B) the creditors

C) the federal reserve

D) the firm's stockholders

Answer: D

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

17) The amount earned during the accounting period on each outstanding share of common stock is called \_\_\_\_\_\_\_\_.

A) dividend per share

B) earnings per share

C) net profits after taxes

D) book value per share

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

18) Which of the following is the best measure of profit maximization goal?

A) retained earnings

B) risk of the investment

C) earnings per share

D) timing of the returns

Answer: C

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

19) Profit maximization as a goal is ideal because it directly considers \_\_\_\_\_\_\_\_.

A) risk and book value of assets

B) timing and cash flow

C) timing and risk

D) EPS and stock price.

Answer: D

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

20) Profit maximization as the goal of the firm is not ideal because \_\_\_\_\_\_\_\_.

A) profits are only accounting measures

B) cash flows are more representative of financial strength

C) profit maximization does not consider risk

D) profits today are less desirable than profits earned in future years

Answer: C

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

21) Which of the following is a measure of profit maximization to shareholders?

A) the timing of returns

B) earnings per share

C) current assets

D) market risk premium

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

22) The key variables in the owner wealth maximization process are \_\_\_\_\_\_\_\_.

A) market risk premium and risk

B) cash flows and risk

C) risk-free rate and share price

D) total assets and risk

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

23) Cash flows and risk are the key determinants in share price. Increased cash flow results in \_\_\_\_\_\_\_\_, other things remaining the same.

A) a lower share price

B) a higher share price

C) an unchanged share price

D) an undetermined share price

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

24) Cash flows and risk are the key determinants in share price. Increased risk, other things remaining the same, results in \_\_\_\_\_\_\_\_.

A) a lower share price

B) a higher share price

C) an unchanged share price

D) an undetermined share price

Answer: A

Diff: 2

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

25) Financial managers evaluating decision alternatives or potential actions must consider \_\_\_\_\_\_\_\_.

A) only risk

B) only return

C) either risk or return

D) risk, return, and the impact on share price

Answer: D

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

26) An ethics program is expected to have \_\_\_\_\_\_\_\_ impact on a firm's share price.

A) a positive

B) a negative

C) no impact

D) an unpredictable

Answer: A

Diff: 1

Topic: What About Stakeholders?

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

27) Which of the following is true of cash flows and risk?

A) Low cash flow and low risk result in an increase in share price.

B) High cash flow and low risk result in an increase in share price.

C) High cash flow and high risk result in an increase in share price.

D) Lo cash flow and high risk result in an increase in share price.

Answer: B

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

28) As the risk of a stock investment increases, investors' \_\_\_\_\_\_\_\_.

A) return will increase

B) return will decrease

C) required rate of return will decrease

D) required rate of return will increase

Answer: D

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

29) If the CEO of a company were to pass away, what do you think would happen to price of the stock?

A) It would decrease because of the perceived increased risk due of lack of near-term leadership.

B) It would increase because of the perceived increased risk due of lack of near-term leadership.

C) It would decrease because of the perceived decreased risk due of lack of near-term leadership.

D) It would increase because of the perceived decreased risk due of lack of near-term leadership.

Answer: A

Diff: 2

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

30) Which of the following is true of a cash flow?

A) Profits do not necessarily result in cash flows available to the stockholders.

B) It is guaranteed that the board of directors will increase dividends when net cash flows increase.

C) A firm's income statement will never show a positive profit when its cash outflows exceed its cash inflows.

D) An increase in revenue will always result in an increase in cash flow.

Answer: A

Diff: 1

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

31) A financial manager must choose between four alternative Assets: 1, 2, 3, and 4. Each asset costs $35,000 and is expected to provide earnings over a three-year period as described below.



Based on the wealth maximization goal, the financial manager would choose \_\_\_\_\_\_\_\_.

A) Asset 1

B) Asset 2

C) Asset 3

D) Asset 4

Answer: A

Diff: 2

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

32) A financial manager must choose between three alternative investments. Each asset is expected to provide earnings over a three-year period as described below. Based on the wealth maximization goal, the financial manager would \_\_\_\_\_\_\_\_.



A) choose Asset 1

B) choose Asset 2

C) choose Asset 3

D) be indifferent between Asset 1 and Asset 2

Answer: A

Diff: 2

Topic: Maximize Shareholder Wealth

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

33) Which of the following is true of stakeholders?

A) They are the owners of a firm.

B) They are groups to whom a firm has financial obligations.

C) They are groups having a direct economic link to a firm.

D) They include only the bondholders, common stockholders, and preferred stockholders.

Answer: C

Diff: 1

Topic: What About Stakeholders?

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

34) Which of the following is an example of a firm's stakeholder?

A) suppliers

B) Federal reserve

C) media

D) competitors

Answer: A

Diff: 1

Topic: What About Stakeholders?

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

35) Which of the following is considered as a violation of business ethics?

A) earnings management

B) repurchase of shares

C) using the call option on a callable bond when the interest rate is low

D) paying a high amount of dividends every year

Answer: A

Diff: 1

Topic: The Role of Business Ethics

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

36) Which of the following is one of the positive benefits of an effective ethics program?

A) reduce potential litigation and judgment costs

B) maintain and build competitor confidence

C) gain the loyalty, commitment, and respect of the firm's competitors

D) making sure violations are penalized, while at the same time not subjecting the employee to publicity

Answer: A

Diff: 1

Topic: Ethics and Share Price

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

37) The implementation of a pro-active ethics program is expected to result in \_\_\_\_\_\_\_\_.

A) a positive corporate image and increased respect, but is not expected to affect cash flows

B) an increased share price resulting from a decrease in risk, but is not expected to affect cash flows

C) a positive corporate image and increased respect, but is not expected to affect share price

D) a positive corporate image and increased respect, a reduction in risk, and enhanced cash flow resulting in an increase in share price

Answer: D

Diff: 1

Topic: Ethics and Share Price

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

38) An effective ethics program \_\_\_\_\_\_\_\_.

A) can weaken corporate value

B) has no effect on a corporation's value

C) can enhance a corporation's value

D) will result in high employee attrition rate

Answer: C

Diff: 1

Topic: Ethics and Share Price

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

39) Corporate ethics policies typically apply to \_\_\_\_\_\_\_\_ in dealing with \_\_\_\_\_\_\_\_.

A) employee actions; customers and creditors

B) employee actions; customers, vendors, and regulators

C) management actions; all corporate constituents

D) employee actions; all corporate constituents

Answer: D

Diff: 1

Topic: Ethics and Share Price

Learning Obj.: LG 3

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

1.4 Describe how the managerial finance function is related to economics and accounting.

1) Marginal cost-benefit analysis states that financial decisions should be made and actions should be taken only when the added benefits exceed the added costs.

Answer: TRUE

Diff: 1

Topic: Relationship to Economics

Learning Obj.: LG 4

Learning Outcome: F-03

Question Status: Revised

AACSB Tag: Analytic Skills

2) The treasurer typically manages a firm's cash, investing surplus funds when available and securing outside financing when needed.

Answer: TRUE

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

3) A corporate treasurer's focus tends to be more external, while the controller's focus is more internal.

Answer: TRUE

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

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

Answer: TRUE

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

5) A corporate controller is an officer responsible for a firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange.

Answer: FALSE

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

6) A corporate treasurer typically handles both the cost accounting and financial accounting.

Answer: FALSE

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

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

Answer: FALSE

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-02

Question Status: Previous Edition

AACSB Tag: Analytic Skills

8) The financial manager of a firm prepares financial statements that recognize revenue at the point of sale and expenses when incurred.

Answer: FALSE

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

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

Answer: TRUE

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-02

Question Status: Previous Edition

AACSB Tag: Analytic Skills

10) The financial manager must look beyond financial statements to obtain insight into developing or existing problems since the accrual accounting data do not fully describe the circumstances of a firm.

Answer: TRUE

Diff: 1

Topic: Role of Financial Manager

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

11) An accountant's primary function is \_\_\_\_\_\_\_\_.

A) the evaluation of the financial statements

B) making decisions based on financial data

C) the collection and presentation of financial data

D) the planning of cash flows

Answer: C

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Analytic Skills

12) A treasurer is commonly responsible for handling \_\_\_\_\_\_\_\_.

A) tax management

B) corporate accounting

C) investing surplus funds

D) cost accounting

Answer: C

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

13) A controller is commonly responsible for \_\_\_\_\_\_\_\_.

A) managing cash

B) financial accounting

C) managing credit activities

D) financial planning

Answer: B

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

14) A \_\_\_\_\_\_\_\_ is responsible for a firm's financial activities such as financial planning and fund raising, making capital expenditure decisions, and managing cash, credit, the pension fund, and foreign exchange.

A) treasurer

B) controller

C) foreign exchange manager

D) pension fund manager

Answer: A

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

15) A \_\_\_\_\_\_\_\_ is responsible for the firm's accounting activities, such as corporate accounting, tax management, financial accounting, and cost accounting.

A) treasurer

B) controller

C) foreign exchange manager

D) pension fund manager

Answer: B

Diff: 1

Topic: Organization of the Finance Function

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

16) Which of the following is true of accrual basis accounting?

A) Expenses are recognized either when they are incurred or cash is paid.

B) Revenue is recognized when a customer pays cash.

C) Expenses are recognized when they are incurred.

D) Revenue is recognized when a customer pays cash or shows interest to purchase the product or service.

Answer: C

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

17) Which of the e following is true of cash basis accounting?

A) All credit sales will be recorded as revenue.

B) Revenue is recognized when a customer pays cash.

C) Expenses are recognized when they are incurred.

D) Accounts receivable and accounts payable can never be zero.

Answer: B

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

18) A financial manager is interested in the cash inflows and outflows of a firm, rather than the accounting data, in order to \_\_\_\_\_\_\_\_.

A) ensure profitability

B) maintain healthy public relations

C) ensure timely payment of taxes

D) maintain an optimum solvency level

Answer: D

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

19) Which of the following is the responsibility of a finance manager?

A) processing purchase orders and invoices

B) ensuring accounts payable are paid on time

C) preparing the monthly income statement

D) analyzing the capital needs of the firm

Answer: D

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

20) Economic theories that a financial manager must ensure for efficient business operations, include \_\_\_\_\_\_\_\_.

A) supply-and-demand analysis

B) asset pricing theory

C) Porter's theory of five forces

D) Monte Carlo simulation

Answer: A

Diff: 1

Topic: Relationship to Economics

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

21) The primary economic principle used in managerial finance is \_\_\_\_\_\_\_\_.

A) purchase power parity

B) asset pricing theory

C) Porter's theory of five forces

D) marginal cost-benefit analysis

Answer: D

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

22) Johnson, Inc. has just ended the calendar year making a sale in the amount of $10,000 of merchandise purchased during the year at a total cost of $7,000. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are \_\_\_\_\_\_\_\_.

A) $3,000 and $10,000, respectively

B) $3,000 and -$7,000, respectively

C) $7,000 and -$3,000, respectively

D) $3,000 and $7,000, respectively

Answer: B

Diff: 2

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-02

Question Status: Previous Edition

AACSB Tag: Analytic Skills

23) A firm has just ended its calendar year making a sale in the amount of $150,000 of merchandise purchased during the year at a total cost of $112,500. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The net profit and cash flow from this sale for the year are \_\_\_\_\_\_\_\_.

A) $0 and $150,000, respectively

B) $37,500 and -$150,000, respectively

C) $37,500 and -$112,500, respectively

D) $150,000 and $112,500, respectively

Answer: C

Diff: 2

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-02

Question Status: Previous Edition

AACSB Tag: Analytic Skills

24) \_\_\_\_\_\_\_\_ is one of the primary responsibilities of a financial manager.

A) Monitoring quarterly tax payments

B) Analyzing budget and performance reports

C) Determining the audit policy

D) Preparing income statements

Answer: B

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

25) By concentrating on cash flows within a firm, the financial manager should be able to \_\_\_\_\_\_\_\_.

A) prepare tax returns

B) control the share price

C) avoid insolvency

D) maintain public relations

Answer: C

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

26) Marginal analysis states that financial decisions should be made and actions should be taken only when \_\_\_\_\_\_\_\_.

A) marginal revenue equals marginal cost

B) benefits equal costs

C) added benefits exceed added costs

D) added benefits are greater than zero

Answer: C

Diff: 1

Topic: Relationship to Economics

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

27) A firm has just ended its calendar year making a sale in the amount of $200,000 of merchandise purchased during the year at a total cost of $150,500. Although the firm paid in full for the merchandise during the year, it is yet to collect at year end from the customer. The possible problem this firm may face is \_\_\_\_\_\_\_\_.

A) high taxes

B) lack of cash flow

C) inability to receive credit

D) high leverage

Answer: B

Diff: 1

Topic: Relationship to Accounting

Learning Obj.: LG 4

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Reflective Thinking Skills

1.5 Identify the primary activities of the financial manager.

1) A financial manager's primary activities include making investment and financing decisions.

Answer: TRUE

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

2) Financing decisions deal with the left-hand side of the firm's balance sheet.

Answer: FALSE

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

3) Which of the following line items in a balance sheet is considered the most for making a financing decision?

A) current assets

B) long-term liabilities

C) revenue

D) cost of goods sold

Answer: B

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-02

Question Status: New

AACSB Tag: Reflective Thinking Skills

4) Investment decisions generally refer to the items that appear on the \_\_\_\_\_\_\_\_.

A) left-hand side of the balance sheet, and financing decisions relate to the items on the right-hand side

B) right-hand side of the balance sheet, and financing decisions relate to the items on the left-hand side

C) right-hand side of the balance sheet, and financing decisions relate to the items on the income statement

D) left-hand side of the balance sheet, and financing decisions relate to the items on the income statement

Answer: A

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

5) Which of the following is one of the key activities of a financial manager?

A) making financing decisions

B) managing cost accounting

C) managing financial accounting

D) making legal policy decisions

Answer: A

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

6) The primary activity of a financial manager is \_\_\_\_\_\_\_\_.

A) analyzing accrued earnings

B) making an investment decision

C) preparing organization charts

D) auditing financial statements

Answer: B

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

7) Which of the following activities of a finance manager determines the types of assets the firm holds?

A) budget allocation

B) investment decisions

C) financing decisions

D) analyzing and planning cash flows

Answer: B

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

8) Making financing decisions includes \_\_\_\_\_\_\_\_.

A) determining the appropriate mix of short-term and long-term financing

B) deciding on which individual securities to select for investment

C) analyzing quarterly budget and performance reports

D) improving the productivity of manufacturing products

Answer: A

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

9) Making investment decisions includes \_\_\_\_\_\_\_\_.

A) inventory

B) fixed assets

C) accounts receivable

D) notes payable

Answer: D

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-02

Question Status: New

AACSB Tag: Analytic Skills

10) Managing a firm's assets includes \_\_\_\_\_\_\_\_.

A) accruals

B) notes payable

C) cash

D) accounts payable

Answer: C

Diff: 1

Topic: Managerial Finance Functions

Learning Obj.: LG 5

Learning Outcome: F-02

Question Status: Revised

AACSB Tag: Analytic Skills

11) Which of the following activities of a finance manager determines how the firm raises money to pay for the assets in which it invests?

A) financial analysis and planning

B) investment decisions

C) financing decisions

D) analyzing and planning cash flows

Answer: C

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: New

AACSB Tag: Analytic Skills

12) A financial manager's investment decisions determine \_\_\_\_\_\_\_\_.

A) both the mix and the type of assets found on the firm's balance sheet

B) both the mix and the type of liabilities found on the firm's balance sheet

C) both the mix and the type of assets and liabilities found on the firm's balance sheet

D) both the mix and the type of short-term and long-term financing

Answer: A

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Reflective Thinking Skills

13) In planning and managing the requirements of a firm, the financial manager is concerned with \_\_\_\_\_\_\_\_.

A) the mix and type of assets, but not the type of financing utilized

B) the type of financing utilized, but not the mix and type of assets

C) the acquisition of fixed assets, allowing someone else to plan the level of current assets required, and the market value of the share

D) the mix and type of assets, the type of financing utilized, and analysis in order to monitor the financial condition

Answer: D

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

14) A financial manager's financing decisions determine \_\_\_\_\_\_\_\_.

A) both the mix and the type of assets found on the firm's balance sheet

B) the most appropriate mix of short-term and long-term financing

C) both the mix and the type of assets and liabilities found on the firm's balance sheet

D) the proportion of the firm's earnings to be paid as dividend

Answer: B

Diff: 1

Topic: Primary Activities of the Financial Manager

Learning Obj.: LG 5

Learning Outcome: F-01

Question Status: Revised

AACSB Tag: Analytic Skills

1.6 Describe the nature of the principal-agent relationship between owners and managers of a corporation, and explain how various corporate governance mechanisms attempt to manage agency problems.

1) Institutional investors are professional investors who work on behalf of individuals, business, and government.

Answer: TRUE

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Analytic Skills

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

Answer: FALSE

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Analytic Skills

3) The president or chief executive officer is elected by a firm's stockholders and has ultimate authority to guide corporate affairs and make general policy.

Answer: FALSE

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Analytic Skills

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

Answer: FALSE

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Analytic Skills

5) Agency problem arises when managers deviate from the goal of maximization of shareholder wealth by placing their personal goals ahead of the goals of shareholders.

Answer: TRUE

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

6) Agents of corporate owners are themselves owners of the firm and have been elected by all the corporate owners to represent them in decision-making and management of the firm.

Answer: FALSE

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Ethical Understanding and Reasoning Abilities

7) An agency problem occurs when a firm selects an ineffective marketing, advertising, and PR firm to represent them.

Answer: FALSE

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

8) Performance plans are plans that tie management compensation to measures such as EPS or growth in EPS.

Answer: TRUE

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Analytic Skills

9) The board of directors is typically responsible for \_\_\_\_\_\_\_\_.

A) approving strategic goals and plans

B) managing day-to-day operations

C) arranging finance for approved long-term investments

D) maintaining and controlling the firm's daily cash balances

Answer: A

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Analytic Skills

10) The Sarbanes-Oxley Act of 2002 was passed in response to \_\_\_\_\_\_\_\_.

A) insider trading activities

B) false disclosures in financial reporting

C) the decline in technology stocks

D) the agency issue

Answer: B

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Analytic Skills

11) The Sarbanes-Oxley Act of 2002 resulted in \_\_\_\_\_\_\_\_.

A) tightened audit regulations and controls

B) toughened penalties against overcompensated executives

C) lenient penalties against executives who commit corporate fraud

D) delayed disclosure of stock sales by corporate executives

Answer: A

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Reflective Thinking Skills

12) The true owner(s) of the corporation is (are) the \_\_\_\_\_\_\_\_.

A) board of directors

B) chief executive officer

C) stockholders

D) creditors

Answer: C

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Reflective Thinking Skills

13) The \_\_\_\_\_\_\_\_ has/have the ultimate responsibility in guiding corporate affairs and carrying out policies.

A) board of directors

B) chief financial officer

C) stockholders

D) creditors

Answer: A

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Analytic Skills

14) The responsibility for managing day-to-day operations and carrying out corporate policies belongs to the \_\_\_\_\_\_\_\_.

A) board of directors

B) chief executive officer

C) stockholders

D) creditors

Answer: B

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Previous Edition

AACSB Tag: Analytic Skills

15) In a corporation, the board of directors are elected by the \_\_\_\_\_\_\_\_.

A) chief executive officer

B) creditors

C) stockholders

D) employees

Answer: C

Diff: 1

Topic: Corporate Governance

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Analytic Skills

16) Which of the following is an example of agency cost?

A) costs incurred for setting up an agency

B) failure of making the best investment decision

C) payment of income tax

D) payment of interest

Answer: B

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

17) Which of the following is the best measure to ensure that management decisions are in the best interest of the stockholders?

A) fire managers who are inefficient

B) remove management's perquisites

C) tie management compensation to the performance of the company's common stock price

D) tie management compensation to the level of dividend per share

Answer: C

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

18) \_\_\_\_\_\_\_\_ is one of the solution to the agency problem in publicly-held corporations.

A) Stock options

B) Stock split

C) Demotion of employee designation

D) Distribution of dividends

Answer: A

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

19) Incentive plans usually tie management compensation to \_\_\_\_\_\_\_\_.

A) share price

B) dividends

C) coupon payments

D) inventory turnover

Answer: A

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

20) If managers are not owners of their company, then they are \_\_\_\_\_\_\_\_.

A) dealers

B) agents

C) bondholders

D) brokers

Answer: B

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Analytic Skills

21) The conflict between the goals of a firm's owners and the goals of its non-owner managers is \_\_\_\_\_\_\_\_.

A) the agency problem

B) incompatibility

C) serious only when profits decline

D) the window-dressing

Answer: A

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: Revised

AACSB Tag: Ethical Understanding and Reasoning Abilities

22) The agency problem may result from a manager's concerns about \_\_\_\_\_\_\_\_.

A) job security

B) maximizing shareholder value

C) corporate goals

D) increasing credit worthiness

Answer: A

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities

23) Which of the following is an example of agency costs?

A) cost of labor

B) raw material cost

C) monitoring expenditures cost

D) factory rent

Answer: C

Diff: 1

Topic: The Agency Issue

Learning Obj.: LG 6

Learning Outcome: F-26

Question Status: New

AACSB Tag: Ethical Understanding and Reasoning Abilities