Package Title: Practice

Course Title: Boone, Contemporary Business, Third Canadian Edition

Chapter Number: 17

Shuffle: No

Question type: Multiple Choice

1) Financial managers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) present financial data that is timely, accurate, and relevant

b) are concerned with acquiring funds but not the use of funds

c) develop a financial plan and determine the most appropriate sources and uses of funds

d) work independently of the strategic plan to maximize shareholder value

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

2) In a large corporation, which executive reports to the Chief Executive Officer and is largely responsible for setting financial policy?

a) the chief operating officer

b) the controller

c) the chief financial officer

d) the treasurer

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Communication

3) In performing their jobs, most finance professionals seek to balance which of the following?

a) profits and loss

b) risk and returns

c) investment and capital

d) taxes and revenues

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

4) At the top of the finance organization of a typical company is a:

a) CFO.

b) CFF.

c) CIO.

d) VP.

Answer: a

Difficulty: Easy

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Communication

5) \_\_\_\_\_\_\_\_\_\_\_\_ involves the planning, obtaining, and managing the company’s funds in order to accomplish its objectives as efficiently and effectively as possible.

a) Finance

b) Operational accounting

c) Leverage

d) Auditing

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: Chapter Overview

Bloom’s Taxonomy: Knowledge

AACSB: Communication

6) According to the text, risk is defined as which of the following?

a) the possibility of gains

b) the certainty of loss

c) the balance between return and investment

d) the uncertainty of gain or loss

Answer: d

Difficulty: Easy

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Communication

7) The process of maximizing the wealth of the firm’s shareholders by striking the optimal balance between risk and return is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) prospectus

b) risk-return trade-off

c) price fixing

d) serial bonds

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.1 Explain the role of financial managers.

Section Reference 1: The Role of the Financial Manager

Bloom’s Taxonomy: Knowledge

AACSB: Communication

8) What is the first step in preparing a financial plan?

a) projecting levels of profits

b) estimating assets that will be required in the coming period

c) determining capital expansion plans

d) forecasting sales or revenue

Answer: d

Difficulty: Medium

Learning Objective 1: LO17.2 Describe the parts of a financial plan and the financial planning process.

Section Reference 1: Financial Planning

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

9) A financial plan is based on three questions. Which of the following is **not** one of these questions?

a) What funds will the firm require during the appropriate period of operations?

b) Where will the firm obtain the necessary funds?

c) When will the firm need more funds?

d) How will the firm manage payments on debt?

Answer: d

Difficulty: Medium

Learning Objective 1: LO17.2 Describe the parts of a financial plan and the financial planning process.

Section Reference 1: Financial Planning

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

10) A(n) \_\_\_\_\_\_\_\_\_\_\_ that is short-term in nature can also be called an operating plan.

a) budget

b) asset intensity

c) stock offering

d) financial plan

Answer: d

Difficulty: Easy

Learning Objective 1: LO17.2 Describe the parts of a financial plan and the financial planning process.

Section Reference 1: Financial Planning

Bloom’s Taxonomy: Comprehension

AACSB: Communication

11) DuPont requires more than three times as many assets per dollar of sales compared to Costco. This is a measure of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) liquidity

b) asset management

c) financial planning

d) asset intensity

Answer: d

Difficulty: Medium

Learning Objective 1: LO17.2 Describe the parts of a financial plan and the financial planning process.

Section Reference 1: Financial Planning

Bloom’s Taxonomy: Comprehension

AACSB:I Analytic

12) Which of the following is a short-term asset?

a) inventory

b) accounts receivable

c) cash

d) all of the above

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.3 Outline how organizations manage their assets.

Section Reference 1: Managing Assets

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

13) The process by which decisions are made, regarding investments in long-lived assets, is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) price fixing

b) capital investment analysis

c) indenture

d) convertible securities

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.3 Outline how organizations manage their assets.

Section Reference 1: Managing Assets

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

14) Short-term assets can be, or are expected to be, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) converted into cash within a year

b) sources of future borrowing

c) collateral for purchases of equipment and property

d) high-risk, high-return securities

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.3 Outline how organizations manage their assets.

Section Reference 1: Managing Assets

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

Question type: True/False

15) Most firms invest excess cash in marketable securities.

1. True
2. False

Answer: True

Difficulty: Medium

Learning Objective 1: LO17.3 Outline how organizations manage their assets.

Section Reference 1: Managing Assets

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

16) The key to managing leverage is to ensure the company’s interest payments remain larger than earnings.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

Question type: Multiple Choice

17) The mix of a firm’s debt and equity capital is referred to as which of the following?

a) owner’s equity

b) capital structure

c) leverage rate

d) asset allocation

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Knowledge

AACSB: Communication

18) Funds provided by the firm’s owners, when they reinvest their earnings, make additional contributions, liquidate assets, issue shares, or raise capital is referred to as which of the following?

a) equity capital

b) capital structure

c) debt capital

d) asset allocation

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

19) During a recession, firms that have a greater degree of leverage have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) more flexibility

b) increased risk

c) higher taxes

d) stable cash flows

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Application

AACSB: Analytic

20) Borrowing cash allows a company to leverage, thereby \_\_\_\_\_\_\_\_\_ (the) rate of return on funds invested.

a) doubling

b) keeping the same

c) decreasing

d) increasing

Answer: d

Difficulty: Medium

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Application

AACSB: Analytic

21) The most common type of dividend, regular dividends, are paid to shareholders\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) once a month

b) every three months

c) twice a year

d) once a year

Answer: b

Difficulty: Easy

Learning Objective 1: LO17.4 Discuss the two major sources of funds for a business and capital structure.

Section Reference 1: Sources of Funds and Capital Structure

Bloom’s Taxonomy: Knowledge

AACSB: Communication

22) Which would be the best way to obtain short-term financing?

a) Establish a line of credit with the bank.

b) Issue common stock.

c) Accept accounts receivable in payment for goods.

d) Sell debentures.

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Application

AACSB: Communication

23) In deciding on the size of a line of credit, which of the following is an important tool?

a) cash budget

b) income statement

c) balance sheet

d) statement of owner’s equity

Answer: a

Difficulty: Hard

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

24) When a firm receives goods or services and agrees to pay for them at a later date, their supplier is extending to them which of the following?

a) payment extension

b) revolving credit

c) trade credit

d) commercial loan

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

25) There are two types of short-term bank loans: line of credit and \_\_\_\_\_\_\_\_\_ agreements.

a) deposit turnover

b) revolving credit

c) certificates of deposit

d) commercial paper

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

26) \_\_\_\_\_\_ involves a business selling its accounts receivable to either a bank or a finance company.

a) Leveraging

b) Short-selling

c) Factoring

d) Discounting

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

Question type: True/False

27) Trade credit is a source of long-term financing.

1. True
2. False

Answer: False

Difficulty: Easy

Learning Objective 1: LO17.5 Identify sources of short-term financing for businesses.

Section Reference 1: Short-Term Funding Options

Bloom’s Taxonomy: Knowledge

AACSB: Communication

Question type: Multiple Choice

28) Business firms, or groups of individuals, that invest in new and growing firms in exchange for an ownership share are referred to as which of the following?

a) angel investors

b) venture capitalists

c) investment bankers

d) start-up investors

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

29) A \_\_\_\_\_\_\_\_\_ refers to the sale of new stock or bond issues to a small group of investors, such as pension funds or insurance companies, rather than to the general public.

a) private offering

b) private placement

c) private brokering

d) private debt

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Comprehension

AACSB: Analytic

30) A sovereign wealth fund is which of the following?

a) a form of private equity owned by governments

b) a form of investment bank that operates internationally

c) a private investment company open only to qualified, large investors

d) a source of long-term capital raised from wealthy individuals and institutional investors

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Knowledge

31) A hedge fund is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-.

a) a form of private equity owned by governments

b) a form of investment bank that operates internationally

c) a private investment company open only to qualified, large investors

d) a source of long-term capital raised from wealthy individuals and institutional investors

Answer: c

Difficulty: Medium

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

32) Clara is the finance manager at a mid-sized company. Although she knows that interest rates sometimes change in a favourable direction, she would prefer the stability of fixed interest payments over time. She should have a higher percentage of \_\_\_\_\_\_\_\_\_\_\_\_ to finance her company’s operations.

a) long-term funds

b) current liabilities

c) commercial paper

d) variable rate loans

Answer: a

Difficulty: Hard

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Application

AACSB: Analytic

33) Why would a firm prefer to sell its bonds through private placement rather than an initial public offering?

a) Firms typically receive more favourable repayment terms from private holders.

b) There are more buyers for private placements than publicly traded bonds.

c) It is often cheaper for the firm to sell securities privately.

d) Private placements reduce the risk of default.

Answer: c

Difficulty: Hard

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Synthesis

AACSB: Analytic

Question type: True/False

34) Unlike venture capital funds, private equity funds will invest even in mature companies.

1. True
2. False

Answer: True

Difficulty: Medium

Learning Objective 1: LO17.6 Discuss long-term financing options.

Section Reference 1: Sources of Long-Term Financing

Bloom’s Taxonomy: Synthesis

AACSB: Analytic

Question type: Multiple Choice

35) General Electric has stated that it is no longer interested in competing in the major appliance business. What might it do with that division?

a) make a tender offer

b) divest it

c) merge with another company

d) take the division private through a leveraged buyout

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Application

AACSB: Analytic

36) In October 2000, Kellogg Co. agreed to purchase Keebler Foods Co. for $4.3 billion in cash and assumed debt. This was a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a) tradeoff

b) acquisition

c) take over

d) joint venture

Answer: b

Difficulty: Hard

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Application

AACSB: Analytic

37) Transactions where public shareholders are bought out and the firm reverts to private status is referred to as which of the following?

a) leveraged buyout

b) trade off

c) take over

d) acquisition

Answer: a

Difficulty: Medium

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Knowledge

AACSB: Communication

38) A \_\_\_\_\_\_\_\_ is the reverse of a merger, that is, a company sells assets such as subsidiaries, product lines, or production facilities.

a) sell-off

b) spin-off

c) tender offer

d) divestiture

Answer: d

Difficulty: Medium

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Knowledge

AACSB: Analytic

39) A type of divesture where the assets sold form a new firm is referred to as which of the following?

a) selloff

b) spinoff

c) tender offer

d) leveraged sellout

Answer: b

Difficulty: Medium

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Knowledge

AACSB: Communication

Question type: True/False

40) A sale of a company’s subsidiary is an example of a tender offer.

1. True
2. False

Answer: False

Difficulty: Medium

Learning Objective 1: LO17.7 Describe mergers, acquisitions, buyouts, and divestitures.

Section Reference 1: Mergers, Acquisitions, Buyouts, and Divestitures

Bloom’s Taxonomy: Comprehension

AACSB: Analytic