Package Title: Clickers

Course Title: Boone, Kurtz, Khan, Canzer, Contemporary Business, Third Canadian Edition

Chapter Number: 17

Question type: Multiple Choice

1) At the top of the finance organization of a typical company is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

a) CFO.

b) CEO.

c) COO.

d) VP of finance.

Answer: a

2) Which one of the following short-term assets is most liquid?

a) Cash

b) Marketable securities

c) Accounts receivable

d) Inventory

Answer: a

3) Which one of the following statements concerning the risk-return-trade-off is incorrect?

a) The risk-return-trade-off is the right balance between risk and return.

b) Higher risk yields lower potential returns.

c) The more money a firm borrows, the greater the risks to shareholders.

d) Failure to invest surplus funds means lower returns.

Answer: b

4) 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

5) Which of the following statements concerning debt is correct?

a) As a company uses more debt, the risk to the company decreases.

b) Interest payment on debt must be paid only if the company has sufficient cash flow.

c) As debt increases, the fixed costs a company must pay increase.

d) Debt is frequently the costliest method of raising additional financing dollars.

Answer: c

6) 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

7) Which one of the following is **not** considered a form of short-term financing?

a) line of credit

b) revolving credit agreement

c) commercial paper

d) sale of shares

Answer: d

8) The most common type of dividend, regular dividends are paid to shareholders:

a) quarterly.

b) annually.

c) monthly.

d) bi-annually.

Answer: a

9) 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

10) Which of the following statements concerning dividends is correct?

a) Firms are under no legal obligation to pay dividends to shareholders.

b) Earnings that are paid in dividends are reinvested in the firm.

c) Earnings that are paid in dividends contribute additional equity capita.l

d) Companies that pay dividends try to decrease the amount of the dividends paid every year.

Answer: a

11) Which one of the following is NOT an asset?

a) marketable securities

b) equipment

c) customer accounts with credit balances

d) office equipment

Answer: c

12) When inventory turnover has been slowing for several quarters in a row:

a) sales are rising faster than inventory

b) customer demand might be increasing

c) the firm may want to decrease its promotion efforts

d) the firm may want to reduce production

Answer: d

13) Which one of the following statements concerning equity capital is INCORRECT?

a) When new equity is sold, the control of existing shareholders is weakened.

b) Equity capital is more expensive than debt capital.

c) Creditors have a senior claim to the assets of a firm before shareholders’ claims.

d) Unlike interest payments, the firm can deduct the costs of dividends paid to shareholders.

Answer: d

14) Investment companies that raise funds from wealthy individuals and institutional investors, and then invest those funds in both public and privately held companies are referred to as:

a) venture capitalists

b) private equity funds

c) hedge funds

d) mutual funds

Answer: b

15) Transactions where public shareholders are bought out and the firm refers to private status are referred to as:

a) tender offers

b) mergers

c) leveraged buyouts

d) divestitures

Answer: c