Fundamentals of Corporate Finance 6th edition Parrino Test Bank

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Corporate Finance, 6e **(Parrino)**
Chapter 1 The Financial Manager and the Firm

1) What is the primary responsibility of a financial manager?
A) To make decisions that benefit the firm's suppliers
B) To make decisions in the best interest of the shareholders
C) To ensure that the firm minimizes taxes
D) To prioritize short-term profits over long-term growth
Answer: B
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: FSA / Process and Resource Management Perspectives

2) Which of the following is considered an intangible productive asset?
A) Manufacturing equipment
B) Cash
C) A patent
D) An office building
Answer: C
Diff: 1
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Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

3) Which of the following accurately reflects the relationship between productive assets and cash flows in a manufacturing firm?
A) Intangible assets typically account for the majority of cash flows generated by a manufacturing firm.
B) Productive assets, including both tangible and intangible assets, are essential for generating cash flows for a manufacturing firm.
C) The cash flows of a manufacturing firm are primarily derived from its operational expenses rather than its assets.
D) Manufacturing firms rely solely on tangible assets to produce cash flows.
Answer: B
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

4) To foster long-term growth, businesses should focus on which of the following strategies?
A) Reinvesting their cash flows or earnings back into the business.
B) Paying out all profits as dividends to shareholders.
C) Limiting investments to only high-risk ventures.
D) Minimizing reinvestment in new projects.
Answer: A
Diff: 1
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5) In the event of bankruptcy, what is the likely process regarding a company's assets?
A) The assets are always liquidated without exception.
B) The company will only be reorganized, not liquidated.
C) The company may be reorganized or liquidated.
D) All assets will be distributed equally among owners and creditors.
Answer: C
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Corporate Finance / Resource Management

6) What is a key characteristic of capital assets?
A) They are purchased primarily for resale within one year.
B) They are intended for long-term use in generating revenues.
C) They must be liquidated quickly to meet financial obligations.
D) They include only intangible assets.
Answer: B
Diff: 1
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IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

7) In capital budgeting, what is the primary goal of investing in a project?
A) To ensure the project has a quick return on investment.
B) To guarantee that costs are minimized.
C) To maximize the value of the firm by ensuring benefits exceed costs.
D) To increase market share regardless of profitability.
Answer: C
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
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Bloom code: Analyze
AACSB: Analytic
IMA / AICPA: Budget Preparation / Resource Management

8) Why is it important for a firm to carefully consider its mix of debt and equity?
A) It determines the number of employees the firm can hire.
B) It affects the firm's financing costs and potential bankruptcy risk.
C) It has no significant implications for the firm's operations.
D) It ensures that the firm remains privately owned.
Answer: B
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Understand
AACSB: Analytic
IMA / AICPA: Investment Decisions / Strategic/Critical Thinking

9) If a firm has total current assets of $500,000 and total current liabilities of $300,000 and total equity of $260,000, what is the firm's net working capital?
A) $200,000
B) $240,000
C) $800,000
D) $500,000
Answer: A
Explanation: $200,000 (Net working capital = Total Current Assets - Total Current Liabilities = $500,000 - $300,000)
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
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AACSB: Analytic
IMA / AICPA: Budget Preparation / Process and Resource Management Perspectives

10) To start a business, the owners need:
A) wealth.
B) a clear vision of what products or services they want to produce.
C) employees.
D) productive assets such as buildings, technology, or patents.
Answer: B
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
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AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

11) 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) a business organization.
D) someone working for the competitor of the firm.
Answer: B
Diff: 1
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IMA / AICPA: Business Economics / Global and Industry Perspectives

12) If you have provided capital to a firm, then you are:
A) a manager.
B) a stakeholder.
C) a partner.
D) an employee.
Answer: B
Diff: 1
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13) Which of the following is **NOT** a stakeholder?
A) An employee
B) A lender
C) The IRS
D) The owner
Answer: D
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
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Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

14) A trademark is an example of:
A) a liquid asset.
B) an intangible asset.
C) a contingent asset.
D) a physical asset.
Answer: B
Diff: 1
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15) Which of the following is **NOT** a characteristic of a shareholder?
A) Expects to receive dividends
B) Expects to receive a capital gain on an investment
C) Expects to receive interest
D) Expects to have rights as defined in the corporation's charter and bylaws
Answer: D
Diff: 1
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AACSB: Analytic
IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

16) 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
Answer: D
Diff: 1
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IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

17) 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 flows.
D) assets.
Answer: C
Diff: 1
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18) Cash dividends are paid out of:
A) residual cash flows.
B) liquidated assets.
C) long-term debt.
D) payroll fund.
Answer: A
Diff: 1
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19) 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) are contingent depending upon a future outcome.
Answer: B
Diff: 1
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AACSB: Analytic
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20) 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.
Answer: A
Diff: 1
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IMA / AICPA: Budget Preparation / Process and Resource Management Perspectives

21) 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's assets should be financed.
C) determining which productive assets should be purchased.
D) involving purchase of short-term assets.
Answer: C
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Budget Preparation / Process and Resource Management Perspectives

22) Working capital management decisions help to determine:
A) how a firm's day-to-day financial matters should be managed.
B) how a firm's assets should be financed.
C) which productive assets should be purchased.
D) how to increase a company's profit.
Answer: A
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

23) Capital budgeting decisions generally have the most effect on:
A) the asset portion of the balance sheet.
B) the short-term investment portion of the balance sheet.
C) the current liability portion of the balance sheet.
D) the retained earnings portion of the balance sheet.
Answer: A
Diff: 2
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Analyze
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IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

24) A good capital budgeting decision is one in which the perceived benefits of the project are:
A) equal to the cost of the asset.
B) less than the cost of the asset.
C) more than the cost of the asset.
D) not identifiable.
Answer: C
Diff: 1
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Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Corporate Finance / Strategic/Critical Thinking

25) Financial markets that trade equity and debt instruments with maturities greater than one year are called:
A) money markets.
B) capital markets.
C) over-the-counter exchange.
D) derivative markets.
Answer: B
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
Section: 1.1 The Role of the Financial Manager
Bloom code: Remember
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IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

26) Financial markets that trade equity and debt instruments with maturities less than one year are called:
A) money markets.
B) capital markets.
C) over-the-counter exchange.
D) derivative markets.
Answer: A
Diff: 1
Learning Objective: LO 1.1 Identify the key financial decisions facing the financial manager of any business.
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IMA / AICPA: Corporate Finance / Process and Resource Management Perspectives

27) What is one key reason that managing inventory levels is critical to a firm's profitability?
A) It helps the firm minimize labor costs while increasing revenue.
B) It ensures that the firm reduces its need for financial leverage.
C) It balances tying up too much capital and losing sales.
D) It guarantees the firm will not face liquidity issues.
Answer: C
Diff: 2
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Section: 1.1 The Role of the Financial Manager
Bloom code: Analyze
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IMA / AICPA: Corporate Finance / Resource Management

28) What is a significant disadvantage of a sole proprietorship?
A) The owner can easily transfer ownership interest at any time.
B) The owner's personal wealth is at risk due to unlimited liability.
C) A sole proprietorship allows for easy access to venture capital.
D) The business can continue operating independently of the owner.
Answer: B
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

29) Which of the following is a disadvantage of a general partnership?
A) Limited access to capital compared to corporations.
B) Profits are taxed at a lower rate than in sole proprietorships.
C) The partnership can exist indefinitely regardless of changes in ownership.
D) Partners have limited liability for the debts of the business.
Answer: A
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Understand
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

30) In which type of business organization does unlimited liability typically apply to the owners?
A) Corporation
B) Sole proprietorship
C) Limited liability company (LLC)
D) Limited partnership
Answer: B
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
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IMA / AICPA: Business Economics / Global and Industry Perspectives

31) In a public corporation, what makes transferring ownership easier compared to a sole proprietorship?
A) Public corporations can transfer ownership through the sale of shares on the stock market.
B) Public corporations have fewer regulations regarding ownership transfers.
C) There is no legal process involved in transferring ownership in a public corporation.
D) Ownership can be transferred without financial implications.
Answer: A
Diff: 1
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IMA / AICPA: Business Economics / Global and Industry Perspectives

32) What is a key disadvantage of forming a general partnership?
A) It allows for easy transfer of ownership interests among partners.
B) It is less costly to establish compared to other business structures.
C) All partners face unlimited liability for the partnership's debts.
D) General partners have more management control than in a sole proprietorship.
Answer: C
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Understand
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

33) For which of the following business structures is double taxation most likely to occur?
A) Sole proprietorship
B) Limited liability company (LLC)
C) C-corporation
D) General partnership
Answer: C
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

34) What is a primary characteristic of privately-held corporations compared to publicly traded corporations?
A) They are not allowed to have stockholders but can have partners.
B) Their stock is traded on public exchanges as limited partnerships.
C) They typically have a small number of stockholders and do not publicly trade their shares.
D) They can have only 100 stockholders and they must be U.S. citizens.
Answer: C
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

35) Which of the following business organizational forms subject the owner(s) to unlimited liability?
A) Limited Liability Company (LLC) and Corporation
B) Limited Liability Company (LLC) and Sole Proprietorship
C) Corporation and General Partnership
D) Sole Proprietorship and General Partnership
Answer: D
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

36) Which of the following business organizational forms create(s) a tax liability on income at the personal income tax rate?
A) Limited Liability Company (LLC) and Corporation
B) Sole Proprietorship and Corporation
C) Partnership and Limited Liability Company (LLC)
D) Sole Proprietorship and Partnership
Answer: D
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
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IMA / AICPA: Business Economics / Global and Industry Perspectives

37) Which of the following business organizational forms is/are the easiest one(s) to raise capital?
A) Sole proprietorship
B) Partnership
C) Corporation
D) Single Owner LLC
Answer: C
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
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IMA / AICPA: Business Economics / Global and Industry Perspectives

38) Which of the following types of owners is protected by limited liability?
A) A sole proprietor
B) A general partner
C) Owner of a corporation
D) A managing partner
Answer: C
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

39) Which of the following types of owners cannot be engaged in managing the business?
A) A sole proprietor
B) A general partner
C) A limited partner
D) A managing partner
Answer: C
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

40) Which form(s) of business organization generate(s) the majority of business revenues and profits in the United States?
A) Sole proprietorship
B) Partnership
C) Corporation
D) Limited Liability Corporation
Answer: C
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

41) 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
Answer: D
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

42) 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
Answer: D
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Governance Perspective

43) Which organizational form best enables the owners of a firm to monitor the professional conduct of other owners of the same firm?
A) Sole proprietorship
B) Partnership
C) Private corporation
D) Public corporation
Answer: B
Diff: 2
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

44) Which of the following is considered a hybrid organizational firm?
A) Sole proprietorship
B) Partnership
C) Corporation
D) Limited liability partnership
Answer: D
Diff: 1
Learning Objective: LO 1.2 Identify common forms of business organization in the United States and their respective strengths and weaknesses.
Section: 1.2 Forms of Business Organization
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

45) 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
Answer: C
Diff: 1
Learning Objective: LO 1.3 Describe the typical organization of the financial function in a large corporation.
Section: 1.3 Managing the Financial Function
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Process and Resource Management Perspectives

46) 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
Answer: A
Diff: 1
Learning Objective: LO 1.3 Describe the typical organization of the financial function in a large corporation.
Section: 1.3 Managing the Financial Function
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Process and Resource Management Perspectives

47) 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
Answer: C
Diff: 2
Learning Objective: LO 1.3 Describe the typical organization of the financial function in a large corporation.
Section: 1.3 Managing the Financial Function
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Reporting; Internal Controls / Reporting; Process and Resource Management Perspectives

48) 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
D) The CFO
Answer: D
Diff: 1
Learning Objective: LO 1.3 Describe the typical organization of the financial function in a large corporation.
Section: 1.3 Managing the Financial Function
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Process and Resource Management Perspectives

49) In a large corporation, to whom does the treasurer typically report?
A) The Board of Directors
B) The Chief Executive Officer (CEO)
C) The Chief Financial Officer (CFO)
D) The Controller
Answer: C
Diff: 1
Learning Objective: LO 1.3 Describe the typical organization of the financial function in a large corporation.
Section: 1.3 Managing the Financial Function
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

50) From the owner's perspective, which of the following should be the goal of a firm?
A) Profit maximization
B) Revenue maximization
C) Stockholders' wealth maximization
D) Tax minimization
Answer: C
Diff: 1
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Performance Measurement / Strategic Perspective

51) When analysts and investors determine the value of a firm's stock, they should consider all of the following **EXCEPT**:
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) the way cash flows between a firm and its stakeholders.
Answer: D
Diff: 1
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

52) 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) Maximizing stock value
Answer: D
Diff: 2
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Corporate Finance / Strategic Perspective

53) Which of the following would generally **NOT** increase shareholders' 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
Answer: B
Diff: 2
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Corporate Finance / Strategic Perspective

54) Which of the following factors or activities can be controlled by a firm's managers?
A) Capital budgeting decision
B) The level of economic activity
C) The level of market interest rates
D) Stock market conditions
Answer: A
Diff: 2
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Budget Preparation / Strategic Perspective

55) Why is maximizing stockholder value preferred over maximizing revenue as a goal for the firm?
A) Shareholder value maximization always leads to higher profits.
B) Stockholder value maximization accounts for cash flows and risk, while revenue does not.
C) Stockholder value is less difficult to measure than revenue.
D) Firms that maximize stockholder value do not need to consider costs.
Answer: B
Diff: 1
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Remember
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IMA / AICPA: Performance Measurement / Strategic/Critical Thinking

56) Explain what the goal of a firm should be.
Answer: 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. Maximizing the stock price, however, is not the same as maximizing profits, since maximizing profits can occur while taking on too much risk, which, on the other hand 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. Profit does not represent the actual cash available because it deducts depreciation expense and some other noncash expenses. Maximizing stockholders' wealth is also not the same as minimizing risk as managers can also increase stock values without undertaking excessive risks.
Diff: 2
Learning Objective: LO 1.4 Explain why maximizing stockholder value is the appropriate goal for management and discuss the alternative goals of stakeholder value maximization and stockholder welfare maximization.
Section: 1.4 The Goal of the Firm
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Performance Measurement / Global and Industry Perspectives

57) What does the "E" in ESG stand for?
A) Efficiency
B) Environmental
C) Equity
D) Ethical
Answer: B
Diff: 1
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Remember
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

58) Which organization first popularized the term ESG in 2004?
A) World Bank
B) International Monetary Fund
C) United Nations
D) European Union
Answer: C
Diff: 1
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Remember
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

59) Which of the following is a goal of the Paris Climate Accord?
A) Limit global warming to 2 degrees Celsius above pre-industrial levels
B) Reduce global carbon emissions by 50%
C) Ban the use of fossil fuels by 2030
D) Implement a global carbon tax
Answer: A
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Remember
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

60) Which standard focuses specifically on industry-relevant ESG risks and opportunities?
A) UN Global Compact
B) SASB
C) GRI
D) PRI
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
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Bloom code: Remember
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

61) Why are financial managers increasingly focused on ESG strategies?
A) ESG strategies directly reduce operating costs.
B) ESG strategies help companies address risk factors and meet investor expectations.
C) ESG strategies ensure compliance with international tax laws.
D) ESG strategies are legally required for all companies.
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Understand
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

62) What is one reason why ESG ratings for the same company might differ among rating agencies?
A) Different agencies have varying standards and methodologies for measuring ESG factors.
B) ESG ratings are based on the company's annual revenues.
C) Rating agencies only consider environmental factors, not social or governance ones.
D) ESG ratings are solely determined by governmental organizations.
Answer: A
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Understand
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

63) How do ESG disclosure standards, like the GRI and SASB, benefit investors?
A) They standardize financial statements across industries.
B) They provide clear insights into how a company's ESG activities affect its cash flows.
C) They mandate that companies release annual profitability reports.
D) They eliminate the need for independent audits.
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Understand
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

64) Why might a company be pressured to improve its ESG performance?
A) To avoid penalties from the SEC
B) To comply with new regulations under the Sarbanes-Oxley Act
C) To meet investor and stakeholder expectations and reduce risk
D) To reduce its annual operating budget
Answer: C
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
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Bloom code: Understand
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

65) A company is planning to expand its operations in a region with strict environmental regulations. How might this decision affect its ESG performance?
A) It would automatically improve the company's environmental score.
B) It may require additional investments in sustainable practices to comply with local laws.
C) The company's ESG score would decrease due to increased operational costs.
D) The region's regulations would have no effect on ESG performance.
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Apply
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

66) If a company invests in new technology that reduces greenhouse gas emissions, what is the likely impact on its ESG ratings?
A) The company's governance score would improve.
B) The company's environmental score would improve, possibly leading to a better overall ESG rating.
C) The company's social score would improve, but the environmental score would remain the same.
D) The company's financial performance would decrease, affecting its ESG score negatively.
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Apply
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

67) A firm with strong workplace diversity and inclusion policies is likely to perform well in which area of ESG?
A) Environmental
B) Social
C) Governance
D) Financial
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Apply
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

68) How would implementing a company-wide ethics program impact the firm's governance practices?
A) It would have no effect on the firm's overall governance rating.
B) It could improve the governance score by enhancing transparency and accountability.
C) It would increase the company's environmental rating.
D) It would only affect the firm's financial performance.
Answer: B
Diff: 2
Learning Objective: LO 1.5 Discuss why financial managers are focusing more on their firm's environmental, social, and governance (ESG) strategies. Describe ESG frameworks, ESG disclosure standards, and ESG rating systems.
Section: 1.5 Environmental, Social, and Governance (ESG) Issues
Bloom code: Apply
AACSB: Knowledge Application
IMA / AICPA: Corporate Social Responsibility / Sustainability

69) 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 of directors 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.
Answer: A
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Internal Controls; Reporting / Reporting

70) 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) managers and stockholders agree about the direction of the company.
Answer: A
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

71) 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) The stockholders
D) The board of directors
Answer: C
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

72) Which of the following does **NOT** have a legal responsibility to represent stockholders' interests?
A) The chairman of the board of directors
B) The CEO
C) The corporation's board of directors
D) Employees
Answer: D
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Legal/Regulatory Perspective

73) An example of an agency cost is:
A) a manager turning down a value-contributing project because its risks can affect his performance.
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) both A and B.
Answer: B
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

74) Which of the following mechanisms can help align the behavior of managers with the goals of stockholders?
A) Having stock dispersed among many shareholders rather than having large stockholders
B) Complete managerial discretion over all aspects of the firm
C) Non-independent board of directors
D) Well-designed management compensation
Answer: D
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Communication
IMA / AICPA: Business Economics / Leadership

75) 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.
Answer: B
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Internal Controls / Risk Assessment, Analysis and Management

76) 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) the agency problem.
Answer: A
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

77) 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
Answer: A
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Process and Resource Management Perspectives

78) A director who is **from outside** the firm is called:
A) an executive director.
B) an inside director.
C) an independent director.
D) an official director.
Answer: C
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Process and Resource Management Perspectives

79) 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
Answer: D
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: FSA / Governance Perspective

80) 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
Answer: D
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Reporting / Reporting

81) 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) Decide who should be the external auditor of the firm
Answer: B
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: FSA / Governance Perspective

82) What is the major complaint by firms about the Sarbanes-Oxley Act of 2002?
A) The legal, 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
Answer: C
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: FSA / Governance Perspective

83) Which of the following 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) Ensuring that an IRS employee is present at the firm's headquarters
Answer: D
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

84) What is the primary role of external auditors in a corporation?
A) To prepare the financial statements for the firm
B) To provide an independent audit of the firm's financial statements
C) To manage the daily finances of the company
D) To approve the firm's budgetary decisions
Answer: B
Diff: 1
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Reporting / Reporting

85) What is an agency conflict in the context of corporate governance?
A) A conflict between stockholders and creditors
B) Where the interests of management diverge from those of stockholders
C) Disagreement among stockholders regarding the distribution of dividends
D) A conflict between different departments within the firm
Answer: B
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

86) How do agency costs typically impact the owners of a firm?
A) Agency costs have no impact on owners' profits.
B) Agency costs can reduce the overall value of the firm.
C) Agency costs are irrelevant in determining stockholder wealth.
D) Owners benefit from agency costs since they are the only stakeholders.
Answer: B
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

87) 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.
Answer: If the manager has no ownership interest in the firm, he/she has no incentive to make the 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 that, we might expect the firm to expend a material number of resources on items that the manager should probably pay for him/herself. Overall, manager with no shares in the firm will tend to maximize his or her own wealth rather than shareholders' wealth.
Diff: 2
Learning Objective: LO 1.6 Discuss how agency conflicts affect the goal of maximizing stockholder value and how corporate governance mechanisms can limit agency conflicts.
Section: 1.6 Agency Conflicts and Corporate Governance
Bloom code: Apply
AACSB: Ethics
IMA / AICPA: Performance Measurement / Strategic Perspective

88) 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.
Answer: B
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

89) 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.
Answer: D
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

90) Why is fostering an ethical business culture important in corporate finance?
A) It guarantees compliance with all laws and regulations.
B) It ensures that employees are motivated solely by financial incentives.
C) It creates a set of principles that guide employees to make ethical decisions without needing explicit instructions.
D) It allows managers to prioritize short-term gains over long-term sustainability.
Answer: C
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Understand
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

91) Corruption in business:
A) is remedied by having non-independent board members.
B) is unaffected by internal auditing controls.
C) is not likely a result of the principal-agent relationship.
D) creates inefficiencies in an economy.
Answer: D
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

92) Which of the following corporate officers is most likely to subject the firm to heavy financial losses when he or she is guilty of serious misconduct?
A) Marketing Manager
B) CFO
C) Chief Technology Officer
D) Chief Risk Officer
Answer: B
Diff: 2
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Apply
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

93) An officer of a firm who is also 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.
Answer: B
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

94) ________ 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) Conflict of interest
Answer: B
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Business Economics / Global and Industry Perspectives

95) With regard to information, a central idea of fairness suggests that:
A) decisions should be made on a level 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.
Answer: A
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Analytic
IMA / AICPA: Decision Analysis / Strategic Perspective

96) 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
Answer: C
Diff: 2
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Apply
AACSB: Ethics
IMA / AICPA: Business Applications / Governance Perspective

97) The Sarbanes-Oxley Act was implemented to promote which of the following in business?
A) Increased competition among firms
B) Ethical conduct and integrity in financial reporting
C) Reduction of regulatory oversight
D) Lower costs for corporate governance
Answer: B
Diff: 1
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Remember
AACSB: Ethics
IMA / AICPA: Business Applications / Professional Demeanor

98) 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.
Answer: 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 financial markets.
Diff: 2
Learning Objective: LO 1.7 Explain why ethics is an important topic in the study of corporate finance.
Section: 1.7 Why Ethics Matters in Corporate Finance
Bloom code: Apply
AACSB: Ethics
IMA / AICPA: Business Applications / Decision Making