**Testbank**

to accompany

**Finance essentials**

**1st edition**

by

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**Module 1: Finance in business**

**Multiple-choice questions**

1. Financial markets include:

A. bond market.

B. cash market.

C. share market.

\*D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the study of how money is managed.

A. marketing.

\*B. finance.

C. taxation.

D. accounting.

LO 1.1: Understanding finance, money and markets.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_ works out the best way to structure finances and make effective financial decisions.

\*A. Finance manager.

B. Controller.

C. CEO.

D. Risk manager.

LO 1.1: Understanding finance, money and markets.

1. The financial system includes:

A. financial regulation.

B. money.

C. financial markets.

\*D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. The importance of finance in society is driven by the economic principle of:

A. economic systems.

B. rationality.

\*C. scarcity.

D. opportunity cost.

LO 1.1: Understanding finance, money and markets.

1. Increased regulation and oversight of the finance sector:

A. encourage consumers to obtain independent advice.

B. protect consumers.

C. build consumer confidence in the system.

\*D. B and C.

LO 1.1: Understanding finance, money and markets.

1. Finances are of great economic and social importance. At the \_\_\_\_\_\_\_\_\_\_ level, they drive the operation and performance of the economy.

\*A. macro.

B. government.

C. micro.

D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. At the \_\_\_\_\_\_\_\_\_\_\_ level, finances influence the fiscal position of the nation and influence living standards.

A. macro.

\*B. government.

C. micro.

D. business entity.

LO 1.1: Understanding finance, money and markets.

1. For consumers, finance influences:

A. ability to make effective financial decisions.

B. accumulation of wealth over the long term.

C. profitability and living standards.

\*D. A and B.

LO 1.1: Understanding finance, money and markets.

1. Finance is used by businesses to:

A. operate on a daily basis.

B. start-up operations.

C. expand and grow the business.

\*D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with standing in the community access financial markets and financial institutions for funds.

A. small partnerships.

B. sole traders.

\*C. large entities.

D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. Entities wanting to raise debt finance from the Australian market have \_\_\_\_\_\_\_\_\_ to choose from as methods of finance.

A. corporate bonds.

B. debentures.

C. notes.

\*D. all of the above.

LO 1.1: Understanding finance, money and markets.

1. Which party of a bond pays the repayment of the face value at maturity?

\*A. issuer.

B. owner.

C. financial intermediary.

D. none of the above.

LO 1.1: Understanding finance, money and markets.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_ are issued by all companies.

A. debentures.

B. bonds.

C. preference shares.

\*D. ordinary shares.

LO 1.1: Understanding finance, money and markets.

1. The business entity which is likely to have the most owners is a:

A. private company.

B. sole trader.

C. partnership.

\*D. listed public company.

LO 1.1: Understanding finance, money and markets.

1. Why don’t many small businesses employ a financial manager?

\*A. costs outweigh benefits.

B. high cost.

C. limited benefits.

D. none of the above.

LO 1.1: Understanding finance, money and markets.

1. Business owners usually choose the structure of their business based on:

A. the taxation of profits.

B. the start-up size of its operations.

C. the legal liability of owners.

\*D. all of the above.

LO 1.2: Identify the basic forms of business structures.

1. Most start-up businesses operate as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ because of their small operating scale and capital requirements.

A. company.

B. partnership.

C. sole trader.

\*D. B or C.

LO 1.2: Identify the basic forms of business structures.

1. Which of the following business organisational forms subjects the owner(s) to unlimited liability?

A. Company.

\*B. Sole trader.

C. Public company.

D. Limited partnership.

LO 1.2: Identify the basic forms of business structures.

1. A \_\_\_\_\_\_\_\_\_\_\_\_ is a business entity owned by one person, and typically consists of the trader and a small number of employees.

\*A. sole trader.

B. partnership.

C. public company.

D. private company.

LO 1.2: Identify the basic forms of business structures.

1. An advantage of forming as a sole trader is because:

A. it is the most complex type of business structure.

B. it is the most regulated form.

\*C. all profits from the business are kept by the owner.

D. the owner is exposed to limited liability.

LO 1.2: Identify the basic forms of business structures.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ organisational form best enables the owners of the business to monitor the actions of other owners of the same entity.

A. sole trader.

\*B. partnership.

C. public company.

D. private company.

LO 1.2: Identify the basic forms of business structures.

1. Which of the following cannot manage the operations of the business?

A. A general partner.

\*B. A limited partner.

C. A sole trader.

D. None of the above.

LO 1.2: Identify the basic forms of business structures.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ have access to more capital, and pooling of knowledge, experience and skills than sole traders.

A. Public companies.

B. Private companies.

\*C. Partnerships.

D. All of the above.

LO 1.2: Identify the basic forms of business structures.

1. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can sell its securities to the market.

\*A. public company.

B. sole trader.

C. private company.

D. partnership.

LO 1.2: Identify the basic forms of business structures.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_ organisational form is subjected to the most legal regulations.

A. partnership.

B. sole trader.

\*C. public company.

D. private company.

LO 1.2: Identify the basic forms of business structures.

1. What form of business organisation is described in a legal sense as a ‘person’?

\*A. A company.

B. A sole trader.

C. A partnership.

D. None of the above.

LO 1.2: Identify the basic forms of business structures.

1. Which of the following organisational form(s) create(s) a tax liability on net profit at the personal income tax rate?

A. Sole proprietorship.

B. Corporation.

C. Partnership.

\*D. A and C.

LO 1.2: Identify the basic forms of business structures.

1. Which of the following business owners is protected by limited liability?

\*A. A limited partner.

B. A sole proprietor.

C. A general partner.

D. None of the above.

LO 1.2: Identify the basic forms of business structures.

1. Which of the following is an independent legal entity that can sue and be sued?

A. A partnership.

\*B. A corporation.

C. A sole trader.

D. None of the above.

LO 1.2: Identify the basic forms of business structures.

1. All companies are registered with and regulated by the:

A. Corporations Act 2001.

B. ASX.

C. government.

\*D. ASIC.

LO 1.2: Identify the basic forms of business structures.

1. A major advantage of the company form of business structure is that:

A. directors are personally liable under the Corporations Act 2001.

\*B. shareholders have limited liability for company debts.

C. employees are personally liable under the Corporations Act 2001.

D. all of the above.

LO 1.2: Identify the basic forms of business structures.

1. When analysts and investors value a company's shares, they should consider the \_\_\_\_\_\_\_\_\_\_ of the expected cash flows.

A. timing.

B. riskiness.

C. size.

\*D. all of the above.

LO 1.3: Discuss the financial goals of a business.

1. Which of the following is an appropriate company goal?

A. Tax minimisation.

\*B. Shareholder wealth maximisation.

C. Profit maximisation.

D. Revenue maximisation.

LO 1.3: Discuss the financial goals of a business.

1. The financial manager’s goal is to:

A. grow the company.

B. minimise risk.

\*C. maximise the value of the company’s shares.

D. maximise profit.

Feedback: All of the other goals have problems and thus maximising the value of the firm is the most appropriate.

LO 1.3: Discuss the financial goals of a business.

1. Maximisation of the owners’ wealth:

\*A. takes risk into consideration.

B. uses a short-term view.

C. relies on accounting numbers.

D. fails to consider the time value of money.

Feedback: Managers must consider risk if they want to maximise the owners’ wealth as shareholders will expect to receive a higher rate of return to compensate for higher levels of risk.

LO 1.3: Discuss the financial goals of a business.

1. The main financial goal of the firm is to:

A. increase revenue growth.

B. maximise profits.

\*C. maximise wealth.

D. increase market share.

Feedback: A large market share and high revenue growth does not necessarily lead to higher profits or wealth maximisation. Maximise profits takes a short-term view whereas wealth maximisation uses a long-run perspective of the business, and has many advantages over other goals.

LO 1.3: Discuss the financial goals of a business.

1. Which of the following statements regarding wealth maximisation is true?

A. Wealth maximisation uses a short-run perspective of the business.

B. Wealth maximisation ignores future cash flows.

\*C. Wealth maximisation considers the time value of money.

D. None of the above.

LO 1.3: Discuss the financial goals of a business.

1. Profit maximisation ignores:

A. the risk associated with cash flows.

B. the time value of money.

C. the amount of cash flows.

\*D. A and B.

LO 1.3: Discuss the financial goals of a business.

1. The time value of money:

\*A. is one of the most important concepts in finance.

B. does not affect the value of cash flows.

C. means a dollar today is worth less than a dollar in the future.

D. none of the above.

LO 1.3: Discuss the financial goals of a business.

1. Which of the following is true?

A. Investors like taking on risk.

\*B. Investors expect to be compensated for bearing risk.

C. The less risky an investment’s cash flows, the less it is worth.

D. The more risky an investment’s cash flows, the more it is worth.

LO 1.3: Discuss the financial goals of a business.

1. The goal for unlisted companies and partnerships can be stated as:

A. maximise the current value of working capital.

B. maximise the current value of non-current assets.

\*C. minimise the current value of equity.

D. maximise the current value of non-current liabilities.

LO 1.3: Discuss the financial goals of a business.

1. The goal to maximise the value of the company’s shares focuses on maximising the value of:

A. profits.

B. productive assets.

C. revenues.

\*D. cash flows.

LO 1.3: Discuss the financial goals of a business.

1. Management decisions that directly affect the company’s expected cash flows include all of the following *except:*

A. product quality and cost.

\*B. corporate laws.

C. research and development.

D. marketing and sales.

LO 1.3: Discuss the financial goals of a business.

1. Share prices are affected by:

A. The business environment.

B. Management decisions.

C. Economic shocks.

\*D. all of the above.

LO 1.3: Discuss the financial goals of a business.

1. Economic shocks that affect share prices include:

A. environmental regulations.

\*B. natural disasters.

C. corporate laws.

D. taxation.

LO 1.3: Discuss the financial goals of a business.

1. The business environment that affects share prices *excludes*:

A. corporate laws.

B. environmental regulations.

\*C. capital budgeting decisions.

D. procedural and safety regulations.

LO 1.3: Discuss the financial goals of a business.

1. The only corporate objective that maximises the economic interests of all stakeholders over a long-term horizon is for management to:

A. expand business operations.

\*B. make decisions that maximise the wealth of shareholders.

C. maintain financial strength.

D. retain financial flexibility.

LO 1.3: Discuss the financial goals of a business.

1. Which of the following statement(s) is (are) correct?

A. Any residual cash flow is reinvested in the firm or paid as dividends.

B. Managers and other employees receive salaries and wages.

C. Cash is king.

\*D. All of the above.

Feedback: This shows the importance of cash and how cash is used in a business.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. The decision-making process through which managers choose long-term productive assets is known as:

A. productive decisions.

B. financing decisions.

\*C. capital budgeting decisions.

D. all of the above.

Feedback: The capital budgeting decision process addresses which productive assets the company should purchase and how much money the company can afford to spend.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. The decision-making process through which managers choose to finance productive assets is known as:

\*A. financing decision.

B. investing decision.

C. capital budgeting.

D. operating decision.

Feedback: Financing decisions concern how companies raise cash to pay for their investments, as shown in figure 1.2.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. If you have loaned capital to a company, then you are:

A. a partner.

B. a shareholder.

\*C. a stakeholder.

D. all of the above.

Feedback: A stakeholder is someone other than an owner who has a claim on the cash flows of the company. Creditors are an example as they want to be paid interest and principal.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Which of the following are stakeholders?

A. Lenders.

B. Suppliers.

C. Australian Taxation Office.

\*D. All of the above.

Feedback: A stakeholder is someone other than an owner who has a claim on the cash flows of the company, such as, managers, creditors, employees, suppliers and the government.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Which of the following is a productive asset?

A. Patents.

B. Plant.

C. Equipment.

\*D. All of the above.

Feedback: The different types of assets that a business uses to generate cash flows.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Financial managers invest in capital projects where:

\*A. net cash flows exceed the initial outlay.

B. expected sales are high.

C. the expected profit exceeds their target profit.

D. cash inflows are less than the cost of the project.

Feedback: Sound investments are those where the value of the benefits exceeds their costs.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. In the financing decision process, managers decide whether to use:

A. equity.

\*B. debt and equity.

C. debt.

D. none of the above.

Feedback: The manager chooses the right combination of debt and equity to finance new acquisitions.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. A working capital manager’s role is to manage:

A. inventory and accounts receivable only.

B. cash and inventory only.

\*C. cash, inventory, accounts receivable, accounts payable and risk management.

D. accounts receivable and payable only.

Feedback: Traditionally, the role of a working manager was to deal with cash, inventory, accounts receivable and accounts payable. After the recent global financial crisis, risk management became an important component of a business and in most cases working capital managers deal with risk management.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Which of the following asset purchase decisions is the most important to the company?

A. Purchasing an intangible asset.

\*B. Purchasing a tangible asset.

C. How to finance the asset’s purchase.

D. All of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. The cash remaining after the company has met its operating expenses, payments to creditors, and tax is referred to as:

\*A. residual cash.

B. earnings per share.

C. dividends.

D. capital contributed in excess of par.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Cash dividends are paid out of:

A. operating expenses.

B. liquidated assets.

C. long-term debt.

\*D. residual cash.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Where liquidation follows insolvency, the \_\_\_\_\_\_\_\_\_\_\_ is/are always paid first.

\*A. secured creditors.

B. owners.

C. government.

D. employees.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Current liabilities are liabilities that:

A. will be converted to equity within a year.

B. will be converted to cash within a year.

\*C. must be paid within a year.

D. none of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Capital budgeting involves:

\*A. which productive assets the company should use.

B. how a company's day-to-day financial matters should be managed.

C. how the company should finance its assets.

D. all of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Working capital management decisions involve:

A. how the company should finance its assets.

B. which productive assets the company should employ.

\*C. how a company's day-to-day financial matters should be managed.

D. all of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Capital budgeting decisions generally involve:

A. the short-term asset portion of the balance sheet.

B. the current liability portion of the balance sheet.

\*C. the fixed asset portion of the balance sheet.

D. all of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Financing decisions involve:

A. trade-offs between advantages and disadvantages.

B. long-term borrowing for productive assets.

C. raising cash to pay for investments.

\*D. all of the above.

LO 1.4: Identify the key financial decisions facing the financial manager.

1. Which of the following has the final decision-making authority among all the company’s executives?

\*A. CEO.

B. CFO.

C. Audit committee.

D. Board of directors.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following reports directly to the board of directors?

A. Treasurer.

B. Internal auditor.

\*C. CEO.

D. CFO.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following reports directly to the owners of the company (assume the company is a public company)?

A. CEO.

B. Audit committee.

C. CFO.

\*D. Board of directors.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is responsible for seeing that the best possible financial analysis is presented.

\*A. CFO.

B. Audit committee.

C. CEO.

D. Board of directors.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The CFO reports directly to the:

A. Board of directors.

B. Audit committee.

\*C. CEO.

D. External auditor.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_ reports directly to the CFO.

A. External auditor.

B. CEO.

\*C. Risk manager.

D. Audit committee.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ does not report directly to the CFO.

A. Internal auditor.

B. Controller.

C. Treasurer.

\*D. Audit committee.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following looks after the collection and disbursement of cash?

A. Internal auditor.

B. Risk manager.

C. Controller.

\*D. Treasurer.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following is responsible for performing audits to determine where the company might incur substantial losses?

A. Controller.

B. Risk manager.

\*C. Internal auditor.

D. Treasurer.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The internal auditor reports directly to the:

A. Controller.

B. CFO.

C. Board of directors.

\*D. B and C.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following is the company’s chief accounting officer?

\*A. Controller.

B. Internal auditor.

C. Risk manager.

D. Treasurer.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. The \_\_\_\_\_\_\_\_\_\_\_ prepares the financial statements and tax returns.

A. Treasurer.

B. Risk manager.

\*C. Controller.

D. Internal auditor.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following monitors and manages the company’s risk exposure in financial and commodity markets?

A. Controller.

\*B. Risk manager.

C. Treasurer.

D. Internal auditor.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following manages the company’s relationships with insurance providers?

A. Internal auditor.

\*B. Risk manager.

C. Treasurer.

D. Controller.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following is responsible for performing an independent audit of the company's financial statements?

A. Audit committee.

\*B. CPA company.

C. CFO.

D. CEO.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following does not require independent audits to be performed for large public companies?

A. Creditors.

B. Investors.

\*C. Debtors.

D. ASIC.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following conducts investigations of significant fraud in the company when senior managers are involved?

A. Controller.

B. Internal auditor.

C. Treasurer.

\*D. Audit committee.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. During the global financial crisis, risk managers had to:

A. manage insurance portfolio.

B. design strategies for limiting risk.

C. monitor the company’s risk exposure.

\*D. all of the above.

Feedback: These are the main roles of risk managers.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. A society's ideas about what actions are right and wrong are:

\*A. ethics.

B. laws.

C. morals.

D. unwritten laws.

LO 1.6: Discuss the relevance of ethics in business.

1. In our society, ethical rules do not include:

A. realising that we must follow the same rules we expect others to follow.

B. considering the impact of our actions on others.

\*C. being unwilling to sometimes put the interest of others ahead of our own interests.

D. all of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. The golden rule is an example of:

A. a current law.

\*B. an ethical norm.

C. a historical law.

D. an unworkable rule in financial markets.

LO 1.6: Discuss the relevance of ethics in business.

1. Corruption in business organisations:

A. creates inefficiencies in an economy.

B. inhibits growth in an economy.

C. slows the rate of economic growth in a country.

\*D. all of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. An example of an economy that had trouble establishing a share market and attracting foreign investment is:

A. China.

B. Japan.

\*C. Russia.

D. Greece.

LO 1.6: Discuss the relevance of ethics in business.

1. Most ethical problems that arise in business dealings are related to:

A. agency obligations.

B. conflicts of interest.

C. information asymmetry.

\*D. all of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. Which corporate officer, when he or she is guilty of serious misconduct, can subject the company to the most serious losses in financial wealth?

\*A. CFO.

B. CEO.

C. Chief Risk Officer.

D. Chief Technology Officer.

LO 1.5: Describe the typical organisation of the financial function in a large company.

1. Which of the following would have the biggest impact on the share price?

A. Revelations of honesty.

B. A product recall.

C. An environmental offence.

\*D. Revelations of deception and fraud.

LO 1.6: Discuss the relevance of ethics in business.

1. Typically, conflicts of interest are resolved by:

A. complete disclosure.

B. nondisclosure.

C. withdrawing from serving one of the parties.

\*D. A and C.

LO 1.6: Discuss the relevance of ethics in business.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_occur(s) when one party in a business transaction has information that is not available to the other parties.

A. Financial advantage.

\*B. Information asymmetry.

C. Information efficiency.

D. Profits.

LO 1.6: Discuss the relevance of ethics in business.

1. Information asymmetry occurs when:

A. both parties have access to the same information.

B. the seller has more information than the buyer.

C. insider trading.

\*D. B and C.

LO 1.6: Discuss the relevance of ethics in business.

1. Insider trading occurs when trading shares based on:

\*A. private information.

B. public information.

C. information readily available.

D. none of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. Incentives to foster ethical behaviour in the business community include:

A. solvency.

\*B. legal fines.

C. financial gains.

D. all of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. Incentives for ethical behaviour include:

A. legislation.

B. insolvency.

C. market forces.

\*D. all of the above.

LO 1.6: Discuss the relevance of ethics in business.

1. An unethical business culture can lead to adverse consequences for:

A. general public.

B. investors.

C. management.

\*D. all of the above

LO 1.6: Discuss the relevance of ethics in business.

1. Incentives provided by law and market forces to foster ethical behaviour:

\*A. are not enough to ensure ethical behaviour.

B. make an ethical business culture unnecessary.

C. are sufficient to ensure ethical behaviour.

D. none of the above.

LO 1.6: Discuss the relevance of ethics in business.