

Multiple Choice Questions for Chapter 2 <https://colldox.com/products/test-bank-contexts-of-deviance-statuses-institutions-and-interactions-5e-coller>

1 Equity refers to

- a) Economic fairness
- b) Funds from investors
- c) Funds from lenders
- d) The cost of borrowings

Answer b

2 The cost of debt is

- a) Interest
- b) Dividend
- c) Capital growth
- d) Dividend and capital growth

Answer a

3 According to Rappaport (1998), the focus of increasing shareholder wealth is to:

- a) Obtain funds at competitive rates from capital markets
- b) Invest funds to exploit imperfections in product markets
- c) Both of the above
- d) None of the above

Answer c

4 Value-based management emphasizes shareholder value, because this is the:

- a) Primary goal of every business
- b) Required under Corporations legislation
- c) Necessary for economic growth
- d) Function of accounting processes

Answer a

5 The difference between total market capitalization and the total capital invested in the business is termed:

- a) total shareholder return
- b) market value added
- c) shareholder value added

d) economic value added

Answer b

6 Total shareholder return is calculated by:

- a) comparing the dividends received by shareholders and the increase in the share price with the original shareholder investment
- b) discounting estimated future cash flows to their present values using the cost of capital
- c) deducting the total capital invested in the business from the total market capitalization
- d) deducting from net operating profit a charge to cover the opportunity cost of the capital invested in the business

Answer a

7 For shareholder value to be created, a business must:

- a) Sell its products in product markets for more than they cost to produce
- b) Borrow from lenders at a cost that is lower than the cost of capital
- c) Generate profits in product markets that exceed the cost of capital in capital markets
- d) Generate profits in capital markets that exceed the cost of capital in product markets

Answer c

8 According to Rappaport (1998), the main drivers of shareholder value are:

- a) Sales growth, net operating profit, and capital investment
- b) The mix of debt and equity, and the weighted average cost of capital
- c) Operating, investment and financing decisions
- d) Cash flow from operations, the level of debt, and the cost of capital

Answer d

9 A detrimental consequence of the emphasis on shareholder value may be that it has led to a focus on:

- a) Sales growth and the return on investment
- b) Dividends and share price
- c) Short-term financial performance
- d) Long-term performance

Answer c

10 Which of the following statements is true?:

- a) Managers have much the same information requirements as do investors
- b) Strategy involves taking a longer term view about the sustainable performance of the business
- c) Financial accounting is about creating shareholder value
- d) Management accounting is concerned with reporting shareholder value to investors

Answer b

11 Decisions made using management accounting information are made in the context of:

- a) Whether those decisions are likely to lead to shareholder value in the longer term
- b) How those decisions will appear when they are reported in the annual financial statements
- c) Both a and b above
- d) None of the above. Management accounting information has no relevance to shareholder value or financial statements

Answer c

12 Shareholders in a company have the right to:

- a) Participate in the management of the company
- b) Visit the company top observe its practices
- c) Obtain additional information to that shown in the annual financial statements
- d) Receive an Annual Report and attend an Annual General Meeting

Answer d

13 The role of a company's board of directors is generally accepted as being to:

- a) Create value for its shareholders

- b) Provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed
- c) Set the strategy for the business and then manage the implementation of that strategy
- d) Make important decisions in relation to capital and product markets

Answer b

14 The financial statements of a company are the responsibility of the:

- a) Shareholders
- b) Directors
- c) Senior managers
- d) Accountants and auditors

Answer b

15 An audit is best defined as:

- a) A thorough checking of financial transactions to ensure they are recorded correctly
- b) A certification by an independent accountant that the financial statements are true and correct
- c) The production of financial statements that comply with legislation, accounting standards and present a true and fair view (or present fairly)
- d) An examination of accounting records of a company carried out by an independent accountant to ensure that the financial statements present a true and fair view (or present fairly)

Answer d

16 An organization's system of financial and other controls, established in order to provide reasonable assurance of effective and efficient operation, internal financial control and compliance with laws and regulations is referred to as a system of:

- a) Governance
- b) Audit
- c) Risk management
- d) Internal control

Answer d

17 Stakeholder theory is concerned primarily with:

- a) Those groups who influence, or are influenced by, the organization
- b) Employees, customers and suppliers
- c) Investors and lenders
- d) Society as a whole

Answer a

18 In company law, the group to whom boards of directors owe the most responsibility are:

- a) Stakeholders
- b) Shareholders
- c) Lenders
- d) Government

Answer b