

1.

Award: 10.00 points

The person generally directly responsible for overseeing the cash and credit functions, financial planning, and capital expenditures is the:

- ☒ treasurer.
- ☐ director.
- ☐ controller.
- ☐ chairman of the board.
- ☐ chief operations officer.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

2.

Award: 10.00 points

The person generally directly responsible for overseeing the tax management, cost accounting, financial accounting, and information system functions is the:

- ☐ treasurer.
- ☐ director.
- ☒ controller.
- ☐ chairman of the board.
- ☐ chief executive officer.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

3.

Award: 10.00 points

The process of planning and managing a firm's long-term investments is called:

- ☐ working capital management.
- ☐ financial depreciation.
- ☐ agency cost analysis.
- ☒ capital budgeting.
- ☐ capital structure.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

4.

Award: 10.00 points

The mixture of debt and equity used by a firm to finance its operations is called:

- ☐ working capital management.
- ☐ financial depreciation.
- ☐ cost analysis.
- ☐ capital budgeting.
- ☐ capital structure.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Understand what mixture of debt and equity firms should use to fund operations

5.

Award: 10.00 points

The management of a firm's short-term assets and liabilities is called:

- ☐ working capital management.
- ☐ debt management.
- ☐ equity management.
- ☐ capital budgeting.
- ☐ capital structure.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

6.

Award: 10.00 points

Where does the assets' values of the firms appear on the Balance Sheet?

- ☐ right hand side.
- ☒ left hand side.
- ☐ right hand side and left hand side.
- ☐ it does not appear on the Balance Sheet at all.
- ☐ right hand side or left hand side.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

7.

Award: 10.00 points

Which of the following is what managers should be trying to do for the firm?

- ☐ maximize revenue.
- ☐ minimize expenses.
- ☒ maximize the market value of the existing owners' equity.
- ☐ maximize the current period's net income.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

8.

Award: 10.00 points

How are most equities traded on the London Stock Exchange?

- ☐ the exchange's auction system.
- ☐ the stock exchange trading system.
- ☐ the stock dealers.
- ☒ the exchange's auction system, stock exchange trading system and the dealers
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

9.

Award: 10.00 points

What does the financial market mainly consist of?

- ☒ the money and the capital markets.
- ☐ the debt and the equity markets.
- ☐ the primary and the secondary markets.
- ☐ the stock markets.
- ☐ the public listed companies.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

10.

Award: 10.00 points

How many companies were listed on the London Stock Exchange since January 2015?

- ☐ about 2000.
- ☐ less than 1500.
- ☐ exactly 1000.
- ☐ about 1000.
- ☒ more than 2400.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

11.

Award: 10.00 points

What type of companies are listed on the Alternative Investment Market?

- ☐ foreign companies.
- ☐ european companies.
- ☐ asian companies.
- ☒ smaller companies.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

12.

Award: 10.00 points

Privately placed debt and equity are not sold on the basis of private negotiations to

- ☒ retail investors.
- ☐ insurance companies.
- ☐ mutual funds managers.
- ☐ large financial institutions
- ☐ retail investors and mutual funds managers

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

13.

Award: 10.00 points

The original sale of securities by governments and corporations to the general public occurs in the:

- ☒ primary market.
- ☐ secondary market.
- ☐ private placement market.
- ☐ proprietary market.
- ☐ liquidation market.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

14.

Award: 10.00 points

When one shareholder sells equity directly to another the transaction is said to occur in the:

- ☐ dealer market.
- ☐ primary market.
- ☒ secondary market.
- ☐ OTC market.
- ☐ NASDAQ market.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

15.

Award: 10.00 points

Which one of the following is a capital budgeting decision?

- ☐ Determining how much debt should be borrowed from a particular lender.
- ☒ Deciding whether or not to open a new store.
- ☐ Deciding when to repay a long-term debt.
- ☐ Determining how much inventory to keep on hand.
- ☐ Determining how much money should be kept in the checking account.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Characterise what long-term investments firms should take

16.

Award: 10.00 points

Capital structure decisions include consideration of the:

I. amount of long-term debt to assume.

II. cost of acquiring funds.

III. current assets and liabilities.

IV. net working capital.

- ☒ I and II only.
- ☐ II and III only.
- ☐ III and IV only.
- ☐ I, II, and IV only.
- ☐ I, III, and IV only.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Understand what mixture of debt and equity firms should use to fund operations

17.

Award: 10.00 points

The decision of which lender to use and which type of long-term loan is best for a project is part of:

- ☐ working capital management.
- ☐ the net working capital decision.
- ☐ capital budgeting.
- ☐ a controller's duties.
- ☒ the capital structure decision.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Understand what mixture of debt and equity firms should use to fund operations

18.

Award: 10.00 points

Working capital management includes decisions concerning which of the following?

- I. trade payables
- II. long-term debt
- III. trade receivables
- IV. inventory

- ☐ I and II only.
- ☐ I and III only.
- ☐ II and IV only.
- ☐ I, II, and III only.
- ☒ I, III, and IV only.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

19.

Award: 10.00 points

The regulatory authority that deals with the registration of publicly traded securities in South Africa is known as

- ☐ capital market authority.
- ☐ financial supervisory authority.
- ☐ security market agency.
- ☒ financial services board.
- ☐ financial marketing unit.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

20. Award: 10.00 points

What is the estimated market value of New York Stock Exchange in 2015?

- ☒ \$18 millions.
- ☐ \$25 millions
- ☐ \$10 millions.
- ☐ \$30 millions
- ☐ \$1 billions

References

Multiple Choice	Difficulty: Concept	Learning Objective: Recognize where firms get long-term financing to pay for its investments
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21. Award: 10.00 points

In which year was the Stock Exchange Electronic Trading Service (SETS) launched?

- ☐ 1995.
- ☐ 2000.
- ☐ 2001.
- ☐ 2005.
- ☒ 1997

References

Multiple Choice	Difficulty: Regular	Learning Objective: Recognize where firms get long-term financing to pay for its investments
------------------------	---------------------	--

22. Award: 10.00 points

Where are most money market banks located?

- ☐ Tokyo, New York and Singapore.
- ☒ Frankfurt, London and New York.
- ☐ Taiwan, Hong Kong and Beijing.
- ☐ New Zealand, Africa and New York.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

23. Award: 10.00 points

A money broker specialises in

- ☐ locating interested parties to sell a company's stock.
- ☐ finding interested parties to buy a company's stock.
- ☒ finding short-term money for borrowers and placing money for lenders.
- ☐ only helping lender placing their money.
- ☐ All of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

24.

Award: 10.00 points

In which year was the Alternative Investment Market formed?

- ☐ 1997.
- ☐ 2000.
- ☐ 2005.
- ☒ 1995.
- ☐ 2001.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

25.

Award: 10.00 points

In which year was London Stock Exchange merged with Borsa Italiana?

- ☐ 2005
- ☐ 2002
- ☐ 2001
- ☐ 2009
- ☒ 2007

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

26. Award: 10.00 points

In which region is the Bermuda Stock Exchange based in?

- ☒ Americas
- ☐ Asia Pacific
- ☐ Europe.
- ☐ Asia
- ☐ None of the above.

References

Multiple Choice Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

27. Award: 10.00 points

Which of the following Stock Exchanges is based in the Asia Pacific region?

- ☐ New York Stock Exchange.
- ☒ Colombo Stock Exchange .
- ☐ London Stock Exchange
- ☐ Irish Stock Exchange.
- ☐ None of the above.

References

Multiple Choice Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

28. Award: 10.00 points

Which of the following reports to the chief financial officer?

- ☐ the general and the divisional managers
- ☐ the retail investors
- ☒ the treasurer and the financial controller.
- ☐ the shareholders and the debtholders
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

29. Award: 10.00 points

Which of the following is a requirement to be listed on the Euronext?

- ☐ the listing company must have at least five years of the accounts filed with the regulator.
- ☐ the value of the shares listed must be at least 10 million euros.
- ☐ the listing company must have an international business operation.
- ☒ a company must have at least 25% of the shares listed on the exchange.
- ☐ the listing company must be in business for at least 10 years.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

30.

Award: 10.00 points

Which of the following system operate in the over-the-counter (OTC) market?

- ☐ the electronic communication system.
- ☐ the alternative trading system.
- ☒ the security dealers automated quotation system.
- ☐ the high frequency trading system.
- ☐ the trading network system.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

31.

Award: 10.00 points

Which standard is followed by the stock listed firms in preparing the financial statement?

- ☐ the international public sector accounting standards.
- ☐ the purchasing power accounting standard
- ☒ the international financial reporting standards.
- ☐ the fair trading standard.
- ☐ the company standard.

References

Multiple Choice

Difficulty: Challenge

Learning Objective: Clarify how firms should manage its everyday financial activities

32.

Award: 10.00 points

What did research find out about company's shares that are highly liquid and heavily traded?

- ☐ such company's shares are only found in London stock exchange
- ☐ such company's shares tend to be found in the banking sector.
- ☐ such company's shares are privately owned.
- ☒ such company's shares tend to have a higher value.
- ☐ such company's shares are only owned by the Americans.

References

Multiple Choice

Difficulty: Challenge

Learning Objective: Recognize where firms get long-term financing to pay for its investments

33.

Award: 10.00 points

Which of the following statements concerning auction markets is (are) correct?

- I. Euronext is an auction market.
- II. The Foreign Exchange Market is an auction market.
- III. All trades involve a dealer in an auction market.
- IV. An auction market is called an over-the-counter market.

- ☒ I only.
- ☐ II only.
- ☐ I and III only.
- ☐ II and III only.
- ☐ II and IV only.

References

Multiple Choice

Difficulty: Challenge

Learning Objective: Characterise what long-term investments firms should take

34.

Award: 10.00 points

Dealer markets:

- ☐ are reserved strictly for trading debt securities.
- ☐ only exist outside of Europe.
- ☒ are called over-the-counter markets.
- ☐ include the Euronext and London Stock Exchanges.
- ☐ list only the securities of the largest firms.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Characterise what long-term investments firms should take

35.

Award: 10.00 points

What is the implication of strong market liquidity on a company's shares?

- ☐ the demand of the company's shares is weak.
- ☐ the supply of the company's shares is weak.
- ☐ the supply of the company's share is strong.
- ☒ the demand of the company's share is strong.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Challenge

Learning Objective: Recognize where firms get long-term financing to pay for its investments

36.

Award: 10.00 points

The primary market is defined as the:

- ☐ market for insured securities.
- ☒ market for new issues.
- ☐ market for securities of the largest firms.
- ☐ over-the-counter market.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Characterise what long-term investments firms should take

37.

Award: 10.00 points

Which of the following goals is related to the control of risk?

- ☐ maximize sales or market share.
- ☒ bankruptcy avoidance
- ☐ minimize costs.
- ☐ maximize profits.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

38. Award: 10.00 points

Profit and cash flows are:

- ☐ generally the same since they reflect current laws and accounting standards.
- ☐ generally the same since accounting profits reflect when the cash flow are received.
- ☒ generally not the same since International Financial Reporting Standards (IFRS) allows for revenue recognition separate from the receipt of cash flows.
- ☐ generally not the same because cash inflows occur before revenue recognition.
- ☐ Both c and d.

References

Multiple Choice

Difficulty: Regular

Learning Objective: Clarify how firms should manage its everyday financial activities

39. Award: 10.00 points

List and briefly describe the three basic questions addressed by a financial manager.

The three areas are: 1. Capital budgeting: The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire. 2. Capital structure: This refers to the specific mixture of long-term debt and equity a firm uses to finance its operations. 3. Working capital management: This refers to a firm's short-term assets and short-term liabilities. Managing the firm's working capital is a day-to-day activity that ensures the firm has sufficient resources to continue its operations and avoid costly interruptions.

References

Essay

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

40. Award: 10.00 points

What are the financial goals that are related to control of risk and profitability?

The financial goals include: Survival, avoiding financial distress and bankruptcy, beating the competition, maximizing sales or market share, minimizing costs, maximizing profits and maintaining steady earnings growth. These financial goals fall into two classes. The first of these relates to profitability. This includes those related to maximising sales and market share and cost control. The second group which includes bankruptcy avoidance, maintaining steady earnings growth and survival, are related in some way to controlling risk.

References

Essay

Difficulty: Regular

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

41. Award: 10.00 points

Explain the difference between an accounting profit and cash flow by using an example

Midland plc is an Irish firm that refines and trades gold. At the end of the year, it sold 2,500 ounces of gold for €1.67 million. The company had acquired the gold for €1 million at the beginning of the year. The company paid cash for the gold when it was purchased. Unfortunately it has yet to collect from the customer to whom the gold was sold. In this case, the income statement will state that it has earned a profit of €670,000. However, as the company has yet to receive the payment from the customer, there will be a €1 million outstanding. Income statement does not always reflect cash flow position of the firm. It recognises item of sales, which include cash sales and also credit sales, which are cases of delay of payment by customer. This explains the difference between accounting profit and cash flow.

References

Essay

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

42.

Award: 10.00 points

What should be the goal of the financial manager of a corporation? Why?

The correct goal is to maximize the current value of the outstanding shares. This goal focuses on enhancing the returns to shareholders who are the owners of the firm. Other goals, such as maximizing earnings, focus too narrowly on accounting income and ignore the importance of market values in managerial finance.

References

Essay

Difficulty: Challenge

Learning Objective: Apply and analyse the goal of financial management in a for-profit business

43.

Award: 10.00 points

Based on Figure 1.3, describe the link of cash flows between the firm and the financial markets

The arrows in Figure 1.3 trace cash flow from the firm to the financial markets and back again. Suppose we begin with the firm's financing activities. To raise money, the firm sells debt (bonds) and equity (shares) to investors in the financial markets. This results in cash flows from the financial markets to the firm (A). This cash is invested in the investment activities (assets) of the firm (B) by the firm's management. The cash generated by the firm (C) is paid to shareholders and bondholders (F). The shareholders receive cash in the form of dividends; the bondholders who lent funds to the firm receive interest and, when the initial loan is repaid, principal. Not all of the firm's cash is paid out. Some is retained (E), and some is paid to the government as taxes (D). Over time, if the cash paid to shareholders and bondholders (F) is greater than the cash raised in the financial markets (A), value will be created.

References

Essay

Difficulty: Regular

Learning Objective: Recognize where firms get long-term financing to pay for its investments

44. Award: 10.00 points

Suppose you own 100 shares of Vodafone which you intend to sell today. Since you will sell it in the secondary market, Vodafone will receive no direct cash flows as a consequence of your sale. Why, then, should Vodafone's management care about the price you get for your shares?

The current market price of Vodafone equity reflects, among other things, market opinion about the quality of firm management. If the shareholder's sale price is low, this indirectly reflects on the reputation of the managers, as well as potentially impacting their standing in the employment market. Alternatively, if the sale price is high, this indicates that the market believes current management is increasing firm value and therefore doing a good job.

References

Essay

Difficulty: Challenge

Learning Objective: Recognize where firms get long-term financing to pay for its investments

45. Award: 10.00 points

One thing lenders sometimes require when loaning money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here?

In the event of a loan default, a lender may wish to liquidate the business. Often it is time consuming and difficult to take title of all of the business assets individually. By taking control of the equity, the lender is able to sell the business simply by reselling the equity in the business. This illustrates once again the ease of transfer of ownership of a corporation.

References

Essay

Difficulty: Challenge

Learning Objective: Characterise what long-term investments firms should take

46. Award: 10.00 points

Why might a corporation wish to list its shares on a national exchange such as the London Stock Exchange as opposed to a small company exchange, such as AIM?

Being listed on a small company exchange effectively limits the capital access for the business. Plus, there is a prestige factor in being listed on one of the national exchanges. There is still a perceived prestige factor in moving from AIM to the LSE since the LSE has more restrictive membership requirements.

References

Essay

Difficulty: Challenge

Learning Objective: Characterise what long-term investments firms should take

47. Award: 10.00 points

On the secondary market:

- ☐ investors cannot transfer ownership of securities.
- ☐ firms sell securities to raise cash.
- ☒ securities are resold.
- ☐ only small firms are active.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

48. Award: 10.00 points

All else equal, a firm can increase its net working capital by:

- ☐ increasing its tangible non-current assets.
- ☐ increasing shareholders' equity.
- ☐ decreasing current assets.
- ☒ decreasing current liabilities.
- ☐ None of the above.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Clarify how firms should manage its everyday financial activities

49. Award: 10.00 points

Consider the following statements about exchanges:

- (i) Over-the counter markets have no dealers.
- (ii) Auction markets are purely electronic markets.

- ☐ (i) is correct.
- ☐ (ii) is correct.
- ☐ (i) is correct and (ii) is incorrect.
- ☐ (i) and (ii) are both correct
- ☒ (i) and (ii) are both incorrect.

References

Multiple Choice

Difficulty: Concept

Learning Objective: Recognize where firms get long-term financing to pay for its investments

50. Award: 10.00 points

Why is stock market liquidity important?

Stock market liquidity is very important to a financial manager because the easier and cheaper it is to trade the shares of a company, the more demand there will be in the firm. Recent research has actually shown that companies have higher values when their shares are liquid and heavily traded, even after taking out all other factors that may drive valuation differences. In addition, having numerous options on where to trade a company's shares does not harm the value, and in fact can make pricing of the shares more efficient.

References

Essay

Difficulty: Challenge

Learning Objective: Recognize where firms get long-term financing to pay for its investments

51. Award: 10.00 points

Google makes a lot of money from advertising and other sources. It wants to continue to expand its activities. Assume that it does not want to issue new shares, and then explain why it cannot retain all its cash flows.

See Figure 1.3. Google will have to pay its bondholders, and perhaps also its shareholders (F). In addition, it has to pay taxes, assuming it makes a profit (D). Since it does not issue new shares, it does not get cash for securities issued (A). As a result, it cannot retain all its cash flows ($E < C$).

References

Essay

Difficulty: Challenge

Learning Objective: Recognize where firms get long-term financing to pay for its investments

52.

Award: 10.00 points

Investments typically result in negative and positive cashflows. Explain the importance of cash flow timing.

See Example 1.2. The timing of cash flows is important because it helps you understand the riskiness of an investment: the earlier you break even on the investment, and start making a profit, the better. Generally speaking the longer it takes to start earning positive cash flows, the worse it is.

References

Essay

Difficulty: Regular

Learning Objective: Clarify how firms should manage its everyday financial activities