ARMS
ACADEMY

FINANCE

Chapter 1

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Chapter 1: The Role of Managerial Finance

1. One major difference in perspective and emphasis between finance and accounting is that accountants generally use the accrual method while in finance, the focus is on cash flows.
(a) True
(b) False

2. Decision rule for managers is to take actions that are expected to increase the share price.
(a) True
(b) False

3. Owners have limited liability in:
(a) Corporation
(b) Sole proprietorships
(c) Partnership
(d) All of these

4. In a balance sheet the assets should always be equal to liabilities plus owners' equity.
(a) True
(b) False

5. .... are groups such as employees, customers, suppliers, creditors, owners, and others who have a direct economic link to the firm.
(a) Stockholders
(b) Shareholders
(c) Stakeholders
(d) None of these

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6. Primary activities of financial managers are:
(a) Making investment decisions
(b) Making financing decisions
(c) Both (a) and (b)
(d) None of these

7. Marginal cost-benefit analysis is the economic principle that states that financial decisions should be made and actions taken only when the added benefits exceed the added costs.
(a) True
(b) False

8. Transfer of ownership is easy in ....
(a) Corporation
(b) Sole proprietorships
(c) Partnership
(d) All of these

9. Which type of business has better access to financing?
(a) Corporations
(b) Partnerships
(c) Sole proprietorships
(d) None of these

10. Shareholders are interested in the firm's current and future level of risk and return, which directly affect share price.
(a) True
(b) False

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11. "Shareholder wealth" in a firm is represented by:
(a) The number of people employed in the firm
(b) The book value of the firm's assets less the book value of its liabilities
(c) The amount of salary paid to its employees
(d) The market price per share of the firm's common stock

12. The long-run objective of financial management is to:
(a) Maximize earning per share
(b) Maximize the value of the firm's common stock
(c) Maximize return on investment
(d) Maximize market share

13. Owners have unlimited liability in the form of organization:
(a) A corporation
(b) A corporation and a sole proprietorship
(c) A corporation and a partnership
(d) A partnership and a sole proprietorship

14. Accountants devote most of their attention to the collection, presentation of financial data and evaluation the statements.
(a) True
(b) False

15. Investment decisions generally refer to the items that appear on the right-hand of the balance sheet, and financing decisions relate to the items on the left-hand side.
(a) True
(b) False

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