Quiz 1

Question one: True or False (5 marks)

1) A sole proprietor has unlimited liability; his or her total investment in the business, but not his or her personal assets, can be taken to satisfy creditors. False

2) Marginal cost-benefit analysis states that financial decisions should be made and actions should be taken only when the added benefits exceed the added costs. True

3) The profit maximization goal ignores the timing of returns, does not directly consider cash flows, and ignores risk. True

4) When considering a firm's financial decision alternatives, financial managers should accept only those actions that are expected to maximize shareholder value. True

5) If a firm earns a profit, it will necessarily also generate a positive cash flow. False

Question two: Multiple Choice (5 marks)

1) Financial managers evaluating decision alternatives or potential actions must consider:

A) Only risk
B) Only return
C) Either risk or return
D) Risk, return, and the impact on share price

2) The wealth of the owners of a corporation is represented by ________.
A) Profits
B) Earnings per share
C) Share value
D) Cash flow

3) A major weakness of a partnership is ________.
A) The difficulty in maintaining owners' control
B) The difficulty in liquidating or transferring ownership
C) The double taxation of income
D) Its high organizational costs

4) A financial manager must choose between four alternative Assets: 1, 2, 3, and 4. Each asset costs $35,000 and is expected to provide earnings over a three-year period as described below.

Asset	Year 1	Year 2	Year 3
Asset 1	$21,000	$15,000	$6,000
Asset 2	6,000	15,000	21,000
Asset 3	20,000	14,000	8,000
Asset 4	14,000	14,000	14,000

35 -(21 + 15 + 6) = 35 - 42

35 - (6 + 15 + 21)

35 - (20 + 14 + 8)

35 - (

Based on the wealth maximization goal, the financial manager would choose ________.

A) Asset 1
B) Asset 2
C) Asset 3
D) Asset 4

5) Which of the following is true of sole proprietorships and corporations?

A) It is difficult to transfer ownership of corporations compared to that of sole proprietorships.
B) Income from both forms of organizations are taxed only at the corporate level.
C) Both sole proprietorships and corporations are equally regulated by the government bodies.
D) In sole proprietorships, owners have unlimited liability; whereas, in corporations, owners have limited liability.