Chapter 01

Introduction to Corporate Finance

**Multiple Choice Questions**

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| 1. | |  | | --- | | Which one of the following terms is defined as the management of a firm's long-term investments? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Financial allocation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Agency cost analysis. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure. | | |

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| 2. | |  | | --- | | Which one of the following terms is defined as the mixture of a firm's debt and equity financing? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Cash management. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Cost analysis. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure. | | |

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| 3. | |  | | --- | | Which one of the following is defined as a firm's short-term assets and its short-term liabilities? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Debt. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Investment capital. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Net capital. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure. | | |

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| 4. | |  | | --- | | A business owned by a solitary individual who has unlimited liability for its debt is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| 5. | |  | | --- | | A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| 6. | |  | | --- | | A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | General partner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietor. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partner. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Corporate shareholder. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Zero partner. | | |

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| 7. | |  | | --- | | A business created as a distinct legal entity and treated as a legal "person" is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Unlimited liability company. | | |

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| 8. | |  | | --- | | Which one of the following terms is defined as a conflict of interest between the corporate shareholders and the corporate managers? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Articles of incorporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Corporate breakdown. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Agency problem. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Legal liability. | | |

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| 9. | |  | | --- | | A stakeholder is: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A person who owns shares of stock. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Any person who has voting rights based on stock ownership of a corporation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | A person who initially founded a firm and currently has management control over that firm. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | A creditor to whom a firm currently owes money. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm. | | |

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| 10. | |  | | --- | | Which of the following questions are addressed by financial managers? | |  | | I. How should a product be marketed? | | II. Should customers be given 30 or 45 days to pay for their credit purchases? | | III. Should the firm borrow more money? | | IV. Should the firm acquire new equipment? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| 11. | |  | | --- | | Which one of the following functions should be the responsibility of the controller rather than the treasurer? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Daily cash deposit. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Income tax returns. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Equipment purchase analysis. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Customer credit approval. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Payment to a vendor. | | |

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| 12. | |  | | --- | | The controller of a corporation generally reports directly to the: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Board of directors. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Chairman of the board. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Chief executive officer. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | President. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Vice president of finance. | | |

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| 13. | |  | | --- | | Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The vice president of finance reports to the chairman of the board. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The chief executive officer reports to the president. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The controller reports to the president. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | The treasurer reports to the vice president of finance. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The chief operations officer reports to the vice president of production. | | |

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| 14. | |  | | --- | | Which one of the following is a capital budgeting decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining how many shares of stock to issue. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Deciding whether or not to purchase a new machine for the production line. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Deciding how to refinance a debt issue that is maturing. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining how much inventory to keep on hand. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining how much money should be kept in the checking account. | | |

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| 15. | |  | | --- | | Which of the following should a financial manager consider when analyzing a capital budgeting project? | |  | | I. Project start-up costs. | | II. Timing of all projected cash flows. | | III. Dependability of future cash flows. | | IV. Dollar amount of each projected cash flow. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| 16. | |  | | --- | | Which one of the following is a capital structure decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining which one of two projects to accept. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Determining how to allocate investment funds to multiple projects. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the amount of funds needed to finance customer purchases of a new product. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining how much debt should be assumed to fund a project. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining how much inventory will be needed to support a project. | | |

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| 17. | |  | | --- | | The decision to issue additional shares of stock is an example of which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Net working capital decision. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Controller's duties. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure decision. | | |

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| 18. | |  | | --- | | Which of the following accounts are included in working capital management? | |  | | I. Accounts Payable | | II. Accounts Receivable | | III. Fixed Assets | | IV. Inventory |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | II, III, and IV only. | | |

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| 19. | |  | | --- | | Which one of the following is a working capital management decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining the amount of equipment needed to complete a job. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Determining whether to pay cash for a purchase or use the credit offered by the supplier. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the amount of long-term debt required to complete a project. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining the number of shares of stock to issue to fund an acquisition. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining whether or not a project should be accepted. | | |

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| 20. | |  | | --- | | Which one of the following statements concerning a sole proprietorship is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A sole proprietorship is designed to protect the personal assets of the owner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The profits of a sole proprietorship are subject to double taxation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The owner of a sole proprietorship is personally responsible for all of the company's debts. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | There are very few sole proprietorships remaining in the U.S. today. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | A sole proprietorship is structured the same as a limited liability company. | | |

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| 21. | |  | | --- | | Which one of the following statements concerning a sole proprietorship is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The life of a sole proprietorship is potentially unlimited. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | A sole proprietor can generally raise large sums of capital quite easily. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Transferring ownership of a sole proprietorship is easier than transferring ownership of a corporation. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | A sole proprietorship is taxed the same as a C corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | It is easy to create a sole proprietorship. | | |

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| 22. | |  | | --- | | Which of the following individuals have unlimited liability based on their ownership interest? | |  | | I. General partner | | II. Sole proprietor | | III. Stockholder | | IV. Limited partner |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, and IV only. | | |

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| 23. | |  | | --- | | Which one of the following best describes the primary advantage of being a limited partner instead of a general partner? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Tax-free income. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Active participation in the firm's activities. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | No potential financial loss. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Greater control over the business affairs of the partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Maximum loss limited to the capital invested. | | |

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| 24. | |  | | --- | | A general partner: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Is personally responsible for all the partnership debts. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Has no say over a firm's daily operations. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Faces double taxation whereas a limited partner does not. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Has a maximum loss equal to his or her equity investment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Receives a salary in lieu of a portion of the profits. | | |

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| 25. | |  | | --- | | A limited partnership: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Has an unlimited life. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Can opt to be taxed as a corporation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Terminates at the death of any limited partner. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Has a greater ability to raise capital than a sole proprietorship. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Consists solely of limited partners. | | |

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| 26. | |  | | --- | | Which of the following apply to a partnership that consists solely of general partners? | |  | | I. Double taxation of partnership profits. | | II. Limited partnership life. | | III. Active involvement in the firm by all the partners. | | IV. Unlimited personal liability for all partnership debts. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | II, III, and IV only. | | |

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| 27. | |  | | --- | | Which of the following are advantages of the corporate form of business ownership? | |  | | I. Limited liability for firm debt. | | II. Double taxation. | | III. Ability to raise capital. | | IV. Unlimited firm life. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | III and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| 28. | |  | | --- | | Which one of the following statements is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The majority of firms in the U.S. are structured as corporations. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Corporate profits are taxable income to the shareholders when earned. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Corporations can raise large amounts of capital generally easier than partnerships can. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Stockholders face no potential losses related to their corporate investment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporate shareholders elect the corporate president. | | |

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| 29. | |  | | --- | | Which one of the following statements is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A general partnership is legally the same as a corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Income from both sole proprietorships and partnerships is taxed as individual income. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Partnerships are the most complicated type of business to form. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | All business organizations have bylaws. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Only firms organized as sole proprietorships have limited lives. | | |

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| 30. | |  | | --- | | The articles of incorporation: | |  | | I. Describe the purpose of the firm. | | II. Are amended periodically. | | III. Set forth the number of shares of stock that can be issued. | | IV. Detail the method that will be used to elect corporate directors. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, III, and IV only. | | |

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| 31. | |  | | --- | | Corporate bylaws: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Must be amended should a firm decide to increase the number of shares authorized. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Cannot be amended once adopted. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Define the name by which the firm will operate. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Describe the intended life and purpose of the organization. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determine how a corporation regulates itself. | | |

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| 32. | |  | | --- | | Which one of the following characteristics applies to a limited liability company? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Available only to firms having a single owner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Limited liability for limited partners only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Taxed similar to a partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Taxed similar to a C corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | All income generated is totally tax-free. | | |

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| 33. | |  | | --- | | Which one of the following business types is best suited to raising large amounts of capital? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Limited liability company. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited partnership. | | |

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| 34. | |  | | --- | | Which type of business organization has all the respective rights and privileges of a legal person? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| 35. | |  | | --- | | Sam, Alfredo, and Juan want to start a small U.S. business. Juan will fund the venture but wants to limit his liability to his initial investment and has no interest in the daily operations. Sam will contribute his full efforts on a daily basis but has limited funds to invest in the business. Alfredo will be involved as an active consultant and manager and will also contribute funds. Sam and Alfredo are willing to accept liability for the firm's debts as they feel they have nothing to lose by doing so. All three individuals will share in the firm's profits and wish to keep the initial organizational costs of the business to a minimum. Which form of business entity should these individuals adopt? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Joint stock company. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporation. | | |

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| 36. | |  | | --- | | Sally and Alicia currently are general partners in a business located in Atlanta, Georgia. They are content with their current tax situation but are both very uncomfortable with the unlimited liability to which they are each subjected. Which form of business entity should they consider to replace their general partnership assuming they wish to remain the only two owners of their business? Whichever organization they select, they wish to be treated equally. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Joint stock company. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited liability company. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporation. | | |

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| 37. | |  | | --- | | Which one of the following best states the primary goal of financial management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Maximize current dividends per share. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Maximize the current value per share. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Increase cash flow and avoid financial distress. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Minimize operational costs while maximizing firm efficiency. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Maintain steady growth while increasing current profits. | | |

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| 38. | |  | | --- | | Which one of the following best illustrates that the management of a firm is adhering to the goal of financial management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Increase in the amount of the quarterly dividend. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Decrease in the per unit production costs. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Increase in the number of shares outstanding. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Decrease in the net working capital. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Increase in the market value per share. | | |

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| 39. | |  | | --- | | Why should financial managers strive to maximize the current value per share of the existing stock? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Doing so guarantees the company will grow in size at the maximum possible rate. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Doing so increases employee salaries. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Because they have been hired to represent the interests of the current shareholders. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Because this will increase the current dividends per share. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Because managers often receive shares of stock as part of their compensation. | | |

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| 40. | |  | | --- | | Decisions made by financial managers should primarily focus on increasing which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Size of the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Growth rate of the firm. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Gross profit per unit produced. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Market value per share of outstanding stock. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Total sales. | | |

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| 41. | |  | | --- | | The Sarbanes-Oxley Act of 2002 is a governmental response to: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Decreasing corporate profits. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The terrorists attacks on 9/11/2001. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | A weakening economy. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Deregulation of the stock exchanges. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Management greed and abuses. | | |

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| 42. | |  | | --- | | Which one of the following is an unintended result of the Sarbanes-Oxley Act? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | More detailed and accurate financial reporting. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Increased management awareness of internal controls. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Corporations delisting from major exchanges. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Increased responsibility for corporate officers. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Identification of internal control weaknesses. | | |

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| 43. | |  | | --- | | A firm which opts to "go dark" in response to the Sarbanes-Oxley Act: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Must continue to provide audited financial statements to the public. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Must continue to provide a detailed list of internal control deficiencies on an annual basis. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Can provide less information to its shareholders than it did prior to "going dark.". | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Can continue publicly trading its stock but only on the exchange on which it was previously listed. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Ceases to exist. | | |

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| 44. | |  | | --- | | Which of the following are results related to the enactment of the Sarbanes-Oxley Act of 2002? | |  | | I. Increased foreign stock exchange listings of U.S. stocks. | | II. Decreased compliance costs. | | III. Increased privatization of public corporations. | | IV. Increased public disclosure by all corporations. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, III, and IV only. | | |

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| 45. | |  | | --- | | Which one of the following actions by a financial manager is most apt to create an agency problem? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Refusing to borrow money when doing so will create losses for the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Refusing to lower selling prices if doing so will reduce the net profits. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Refusing to expand the company if doing so will lower the value of the equity. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Agreeing to pay bonuses based on the market value of the company stock rather than on the firm's level of sales. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Increasing current profits when doing so lowers the value of the firm's equity. | | |

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| 46. | |  | | --- | | Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes. | |  | | I. Compensation based on the value of the stock. | | II. Stock option plans. | | III. Threat of a company takeover. | | IV. Threat of a proxy fight. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | III and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| 47. | |  | | --- | | Which form of business structure is most associated with agency problems? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| 48. | |  | | --- | | Which one of the following is an agency cost? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Accepting an investment opportunity that will add value to the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Increasing the quarterly dividend. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Investing in a new project that creates firm value. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Hiring outside accountants to audit the company's financial statements. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Closing a division of the firm that is operating at a loss. | | |

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| 49. | |  | | --- | | Which one of the following is a means by which shareholders can replace company management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Stock options. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Promotion. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Sarbanes-Oxley Act. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Agency play. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Proxy fight. | | |

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| 50. | |  | | --- | | Which one of the following grants an individual the right to vote on behalf of a shareholder? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Proxy. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Indenture agreement. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Stock option. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Stock audit. | | |

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| 51. | |  | | --- | | Which one of the following parties has ultimate control of a corporation? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Chairman of the board. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Board of directors. | |  |  |  | | --- | --- | | C. | Chief executive officer. |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Chief operating office. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Shareholders. | | |

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| 52. | |  | | --- | | Which of the following parties are considered stakeholders of a firm? | |  | | I. Employee | | II. Long-term creditor | | III. Government | | IV. Common stockholder |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II and IV only. | |  |  |  | | --- | --- | | E. | II, III, and IV only. | |

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| 53. | |  | | --- | | Which of the following represent cash outflows from a corporation? | |  | | I. Issuance of securities. | | II. Payment of dividends. | | III. New loan proceeds. | | IV. Payment of government taxes. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I and IV only. | |  |  |  | | --- | --- | | D. | I, II, and IV only. |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | II, III, and IV only. | | |

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| 54. | |  | | --- | | Which of the following are cash flows from a corporation into the financial markets? | |  | | I. Repayment of long-term debt. | | II. Payment of government taxes. | | III. Payment of loan interest. | | IV. Payment of quarterly dividend. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, and III only. | | |

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| 55. | |  | | --- | | Which one of the following is a primary market transaction? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sale of currently outstanding stock by a dealer to an individual investor. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sale of a new share of stock to an individual investor. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Stock ownership transfer from one shareholder to another shareholder. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Gift of stock from one shareholder to another shareholder. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Gift of stock by a shareholder to a family member. | | |

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| 56. | |  | | --- | | Shareholder A sold 500 shares of ABC stock on the New York Stock Exchange. This transaction: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Took place in the primary market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Occurred in a dealer market. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Was facilitated in the secondary market. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Involved a proxy. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Was a private placement. | | |

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| 57. | |  | | --- | | Public offerings of debt and equity must be registered with which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | New York Board of Governors. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Federal Reserve. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | NYSE Registration Office. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Securities and Exchange Commission. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Market Dealers Exchange. | | |

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| 58. | |  | | --- | | Which one of the following statements is generally correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Private placements must be registered with the SEC. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | All secondary markets are auction markets. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Dealer markets have a physical trading floor. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Auction markets match buy and sell orders. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Dealers arrange trades but never own the securities traded. | | |

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| 59. | |  | | --- | | Which one of the following statements concerning stock exchanges is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | NASDAQ is a broker market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The NYSE is a dealer market. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The exchange with the strictest listing requirements is NASDAQ. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Some large companies are listed on NASDAQ. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Most debt securities are traded on the NYSE. | | |

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| 60. | |  | | --- | | Shareholder A sold shares of Maplewood Cabinets stock to Shareholder B. The stock is listed on the NYSE. This trade occurred in which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Primary, dealer market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Secondary, dealer market. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Primary, auction market. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Secondary, auction market. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Secondary, OTC market. | | |

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| 61. | |  | | --- | | Which one of the following statements is correct concerning the NYSE? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The publicly traded shares of a NYSE-listed firm must be worth at least $250 million. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The NYSE is the largest dealer market for listed securities in the United States. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The listing requirements for the NYSE are more stringent than those of NASDAQ. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Any corporation desiring to be listed on the NYSE can do so for a fee. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The NYSE is an OTC market functioning as both a primary and a secondary market. | | |

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| 62. | |  | | --- | | Which one of these is a working capital management decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining the minimum level of cash to be kept in a checking account. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Determining the best method of producing a product. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the number of employees needed to work during a particular shift. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining when to replace obsolete equipment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining if a competitor should be acquired. | | |

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| 63. | |  | | --- | | The growth of both sole proprietorships and partnerships is frequently limited by their: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Double taxation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Inability to raise cash. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited liability. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Organizational articles. | | |

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| 64. | |  | | --- | | Corporate dividends are: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Tax-free income because they represent a repayment of the cost to purchase corporate shares. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Not taxed as shareholders pay taxes on corporate income when it is earned. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Tax-free since the corporation pays tax on that income when it is earned. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Taxed at both the corporate and the personal level when the dividends are paid. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Taxable as personal income when received by shareholders even though that income was taxed at the corporate level. | | |

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| 65. | |  | | --- | | Financial managers should primarily focus on the interests of: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Stakeholders. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The vice president of finance. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Their immediate supervisor. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Shareholders. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The board of directors. | | |

Chapter 01 Introduction To Corporate Finance Answer Key

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 1. | |  | | --- | | Which one of the following terms is defined as the management of a firm's long-term investments? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Financial allocation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Agency cost analysis. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Financial management decisions* |

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| 2. | |  | | --- | | Which one of the following terms is defined as the mixture of a firm's debt and equity financing? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Cash management. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Cost analysis. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Capital structure. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Financial management decisions* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | |  | | --- | | Which one of the following is defined as a firm's short-term assets and its short-term liabilities? |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | Working capital. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Debt. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Investment capital. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Net capital. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Capital structure. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Financial management decisions* |

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| 4. | |  | | --- | | A business owned by a solitary individual who has unlimited liability for its debt is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | |  | | --- | | A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 6. | |  | | --- | | A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | General partner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietor. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Limited partner. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Corporate shareholder. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Zero partner. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 7. | |  | | --- | | A business created as a distinct legal entity and treated as a legal "person" is called a: |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Unlimited liability company. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | |  | | --- | | Which one of the following terms is defined as a conflict of interest between the corporate shareholders and the corporate managers? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Articles of incorporation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Corporate breakdown. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Agency problem. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Legal liability. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Agency costs and problems* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | |  | | --- | | A stakeholder is: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A person who owns shares of stock. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Any person who has voting rights based on stock ownership of a corporation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | A person who initially founded a firm and currently has management control over that firm. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | A creditor to whom a firm currently owes money. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Introduction to corporate finance* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | |  | | --- | | Which of the following questions are addressed by financial managers? | |  | | I. How should a product be marketed? | | II. Should customers be given 30 or 45 days to pay for their credit purchases? | | III. Should the firm borrow more money? | | IV. Should the firm acquire new equipment? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Financial management decisions* |

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| 11. | |  | | --- | | Which one of the following functions should be the responsibility of the controller rather than the treasurer? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Daily cash deposit. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Income tax returns. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Equipment purchase analysis. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Customer credit approval. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Payment to a vendor. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Management organization and roles* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | |  | | --- | | The controller of a corporation generally reports directly to the: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Board of directors. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Chairman of the board. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Chief executive officer. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | President. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Vice president of finance. | | |

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| 13. | |  | | --- | | Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The vice president of finance reports to the chairman of the board. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The chief executive officer reports to the president. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The controller reports to the president. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | The treasurer reports to the vice president of finance. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The chief operations officer reports to the vice president of production. | | |

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| 14. | |  | | --- | | Which one of the following is a capital budgeting decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining how many shares of stock to issue. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Deciding whether or not to purchase a new machine for the production line. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Deciding how to refinance a debt issue that is maturing. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining how much inventory to keep on hand. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining how much money should be kept in the checking account. | | |

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| 15. | |  | | --- | | Which of the following should a financial manager consider when analyzing a capital budgeting project? | |  | | I. Project start-up costs. | | II. Timing of all projected cash flows. | | III. Dependability of future cash flows. | | IV. Dollar amount of each projected cash flow. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | I, II, III, and IV. | | |

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| 16. | |  | | --- | | Which one of the following is a capital structure decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining which one of two projects to accept. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Determining how to allocate investment funds to multiple projects. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the amount of funds needed to finance customer purchases of a new product. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Determining how much debt should be assumed to fund a project. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining how much inventory will be needed to support a project. | | |

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| 17. | |  | | --- | | The decision to issue additional shares of stock is an example of which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Working capital management. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Net working capital decision. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Capital budgeting. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Controller's duties. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Capital structure decision. | | |

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| 18. | |  | | --- | | Which of the following accounts are included in working capital management? | |  | | I. Accounts Payable | | II. Accounts Receivable | | III. Fixed Assets | | IV. Inventory |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | II, III, and IV only. | | |

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| 19. | |  | | --- | | Which one of the following is a working capital management decision? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Determining the amount of equipment needed to complete a job. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Determining whether to pay cash for a purchase or use the credit offered by the supplier. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the amount of long-term debt required to complete a project. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining the number of shares of stock to issue to fund an acquisition. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining whether or not a project should be accepted. | | |

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| 20. | |  | | --- | | Which one of the following statements concerning a sole proprietorship is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A sole proprietorship is designed to protect the personal assets of the owner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The profits of a sole proprietorship are subject to double taxation. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | The owner of a sole proprietorship is personally responsible for all of the company's debts. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | There are very few sole proprietorships remaining in the U.S. today. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | A sole proprietorship is structured the same as a limited liability company. | | |

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| 21. | |  | | --- | | Which one of the following statements concerning a sole proprietorship is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The life of a sole proprietorship is potentially unlimited. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | A sole proprietor can generally raise large sums of capital quite easily. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Transferring ownership of a sole proprietorship is easier than transferring ownership of a corporation. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | A sole proprietorship is taxed the same as a C corporation. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | It is easy to create a sole proprietorship. | | |

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| 22. | |  | | --- | | Which of the following individuals have unlimited liability based on their ownership interest? | |  | | I. General partner | | II. Sole proprietor | | III. Stockholder | | IV. Limited partner |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | II only. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, and IV only. | | |

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| 23. | |  | | --- | | Which one of the following best describes the primary advantage of being a limited partner instead of a general partner? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Tax-free income. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Active participation in the firm's activities. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | No potential financial loss. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Greater control over the business affairs of the partnership. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Maximum loss limited to the capital invested. | | |

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| 24. | |  | | --- | | A general partner: |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | Is personally responsible for all the partnership debts. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Has no say over a firm's daily operations. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Faces double taxation whereas a limited partner does not. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Has a maximum loss equal to his or her equity investment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Receives a salary in lieu of a portion of the profits. | | |

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| 25. | |  | | --- | | A limited partnership: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Has an unlimited life. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Can opt to be taxed as a corporation. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Terminates at the death of any limited partner. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Has a greater ability to raise capital than a sole proprietorship. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Consists solely of limited partners. | | |

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| 26. | |  | | --- | | Which of the following apply to a partnership that consists solely of general partners? | |  | | I. Double taxation of partnership profits. | | II. Limited partnership life. | | III. Active involvement in the firm by all the partners. | | IV. Unlimited personal liability for all partnership debts. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, II, and IV only. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | II, III, and IV only. | | |

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| 27. | |  | | --- | | Which of the following are advantages of the corporate form of business ownership? | |  | | I. Limited liability for firm debt. | | II. Double taxation. | | III. Ability to raise capital. | | IV. Unlimited firm life. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | III and IV only. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, III, and IV. | | |

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| 28. | |  | | --- | | Which one of the following statements is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The majority of firms in the U.S. are structured as corporations. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Corporate profits are taxable income to the shareholders when earned. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Corporations can raise large amounts of capital generally easier than partnerships can. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Stockholders face no potential losses related to their corporate investment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporate shareholders elect the corporate president. | | |

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| 29. | |  | | --- | | Which one of the following statements is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | A general partnership is legally the same as a corporation. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Income from both sole proprietorships and partnerships is taxed as individual income. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Partnerships are the most complicated type of business to form. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | All business organizations have bylaws. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Only firms organized as sole proprietorships have limited lives. | | |

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| 30. | |  | | --- | | The articles of incorporation: | |  | | I. Describe the purpose of the firm. | | II. Are amended periodically. | | III. Set forth the number of shares of stock that can be issued. | | IV. Detail the method that will be used to elect corporate directors. |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, III, and IV only. | | |

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| 31. | |  | | --- | | Corporate bylaws: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Must be amended should a firm decide to increase the number of shares authorized. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Cannot be amended once adopted. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Define the name by which the firm will operate. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Describe the intended life and purpose of the organization. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Determine how a corporation regulates itself. | | |

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| 32. | |  | | --- | | Which one of the following characteristics applies to a limited liability company? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Available only to firms having a single owner. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Limited liability for limited partners only. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Taxed similar to a partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Taxed similar to a C corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | All income generated is totally tax-free. | | |

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| 33. | |  | | --- | | Which one of the following business types is best suited to raising large amounts of capital? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Limited liability company. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited partnership. | | |

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| 34. | |  | | --- | | Which type of business organization has all the respective rights and privileges of a legal person? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 35. | |  | | --- | | Sam, Alfredo, and Juan want to start a small U.S. business. Juan will fund the venture but wants to limit his liability to his initial investment and has no interest in the daily operations. Sam will contribute his full efforts on a daily basis but has limited funds to invest in the business. Alfredo will be involved as an active consultant and manager and will also contribute funds. Sam and Alfredo are willing to accept liability for the firm's debts as they feel they have nothing to lose by doing so. All three individuals will share in the firm's profits and wish to keep the initial organizational costs of the business to a minimum. Which form of business entity should these individuals adopt? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Joint stock company. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporation. | | |

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| *AACSB: Reflective Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 36. | |  | | --- | | Sally and Alicia currently are general partners in a business located in Atlanta, Georgia. They are content with their current tax situation but are both very uncomfortable with the unlimited liability to which they are each subjected. Which form of business entity should they consider to replace their general partnership assuming they wish to remain the only two owners of their business? Whichever organization they select, they wish to be treated equally. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Joint stock company. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Limited liability company. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Corporation. | | |

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| *AACSB: Reflective Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 37. | |  | | --- | | Which one of the following best states the primary goal of financial management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Maximize current dividends per share. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Maximize the current value per share. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Increase cash flow and avoid financial distress. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Minimize operational costs while maximizing firm efficiency. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Maintain steady growth while increasing current profits. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Section: 1.3 The Goal of Financial Management Topic: Goal of financial management* |

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| 38. | |  | | --- | | Which one of the following best illustrates that the management of a firm is adhering to the goal of financial management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Increase in the amount of the quarterly dividend. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Decrease in the per unit production costs. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Increase in the number of shares outstanding. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Decrease in the net working capital. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Increase in the market value per share. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Section: 1.3 The Goal of Financial Management Topic: Goal of financial management* |

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| 39. | |  | | --- | | Why should financial managers strive to maximize the current value per share of the existing stock? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Doing so guarantees the company will grow in size at the maximum possible rate. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Doing so increases employee salaries. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Because they have been hired to represent the interests of the current shareholders. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Because this will increase the current dividends per share. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Because managers often receive shares of stock as part of their compensation. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Section: 1.3 The Goal of Financial Management Topic: Goal of financial management* |

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| 40. | |  | | --- | | Decisions made by financial managers should primarily focus on increasing which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Size of the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Growth rate of the firm. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Gross profit per unit produced. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Market value per share of outstanding stock. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Total sales. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Section: 1.3 The Goal of Financial Management Topic: Goal of financial management* |

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| 41. | |  | | --- | | The Sarbanes-Oxley Act of 2002 is a governmental response to: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Decreasing corporate profits. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The terrorists attacks on 9/11/2001. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | A weakening economy. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Deregulation of the stock exchanges. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Management greed and abuses. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.3 The Goal of Financial Management Topic: Ethics, governance, and regulation* |

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| 42. | |  | | --- | | Which one of the following is an unintended result of the Sarbanes-Oxley Act? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | More detailed and accurate financial reporting. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Increased management awareness of internal controls. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Corporations delisting from major exchanges. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Increased responsibility for corporate officers. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Identification of internal control weaknesses. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.3 The Goal of Financial Management Topic: Ethics, governance, and regulation* |

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| 43. | |  | | --- | | A firm which opts to "go dark" in response to the Sarbanes-Oxley Act: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Must continue to provide audited financial statements to the public. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Must continue to provide a detailed list of internal control deficiencies on an annual basis. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Can provide less information to its shareholders than it did prior to "going dark.". | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Can continue publicly trading its stock but only on the exchange on which it was previously listed. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Ceases to exist. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.3 The Goal of Financial Management Topic: Ethics, governance, and regulation* |

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| 44. | |  | | --- | | Which of the following are results related to the enactment of the Sarbanes-Oxley Act of 2002? | |  | | I. Increased foreign stock exchange listings of U.S. stocks. | | II. Decreased compliance costs. | | III. Increased privatization of public corporations. | | IV. Increased public disclosure by all corporations. |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, III, and IV only. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.3 The Goal of Financial Management Topic: Ethics, governance, and regulation* |

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| 45. | |  | | --- | | Which one of the following actions by a financial manager is most apt to create an agency problem? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Refusing to borrow money when doing so will create losses for the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Refusing to lower selling prices if doing so will reduce the net profits. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Refusing to expand the company if doing so will lower the value of the equity. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Agreeing to pay bonuses based on the market value of the company stock rather than on the firm's level of sales. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Increasing current profits when doing so lowers the value of the firm's equity. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Agency costs and problems* |

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| 46. | |  | | --- | | Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes. | |  | | I. Compensation based on the value of the stock. | | II. Stock option plans. | | III. Threat of a company takeover. | | IV. Threat of a proxy fight. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | III and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I, II, and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | I, II, III, and IV. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Agency costs and problems* |

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| 47. | |  | | --- | | Which form of business structure is most associated with agency problems? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sole proprietorship. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | General partnership. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Limited partnership. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Corporation. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Limited liability company. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Agency costs and problems* |

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| 48. | |  | | --- | | Which one of the following is an agency cost? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Accepting an investment opportunity that will add value to the firm. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Increasing the quarterly dividend. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Investing in a new project that creates firm value. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Hiring outside accountants to audit the company's financial statements. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Closing a division of the firm that is operating at a loss. | | |

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| *AACSB: Ethics Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Agency costs and problems* |

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| 49. | |  | | --- | | Which one of the following is a means by which shareholders can replace company management? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Stock options. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Promotion. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Sarbanes-Oxley Act. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Agency play. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Proxy fight. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Shareholder voting* |

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| 50. | |  | | --- | | Which one of the following grants an individual the right to vote on behalf of a shareholder? |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | Proxy. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Indenture agreement. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Stock option. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Stock audit. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Topic: Shareholder voting* |

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| 51. | |  | | --- | | Which one of the following parties has ultimate control of a corporation? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Chairman of the board. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Board of directors. | |  |  |  | | --- | --- | | C. | Chief executive officer. |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Chief operating office. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Shareholders. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Shareholder voting* |

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| 52. | |  | | --- | | Which of the following parties are considered stakeholders of a firm? | |  | | I. Employee | | II. Long-term creditor | | III. Government | | IV. Common stockholder |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | IV only. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | II and IV only. | |  |  |  | | --- | --- | | E. | II, III, and IV only. | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-04 The conflicts of interest that can arise between managers and owners. Section: 1.4 The Agency Problem and Control of the Corporation Topic: Introduction to corporate finance* |

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| 53. | |  | | --- | | Which of the following represent cash outflows from a corporation? | |  | | I. Issuance of securities. | | II. Payment of dividends. | | III. New loan proceeds. | | IV. Payment of government taxes. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | I and IV only. | |  |  |  | | --- | --- | | D. | I, II, and IV only. |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | II, III, and IV only. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Cash flows* |

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| 54. | |  | | --- | | Which of the following are cash flows from a corporation into the financial markets? | |  | | I. Repayment of long-term debt. | | II. Payment of government taxes. | | III. Payment of loan interest. | | IV. Payment of quarterly dividend. |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | I and II only. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | I and III only. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | II and IV only. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | I, III, and IV only. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | I, II, and III only. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Cash flows* |

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| 55. | |  | | --- | | Which one of the following is a primary market transaction? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Sale of currently outstanding stock by a dealer to an individual investor. | |  |  |  |  | | --- | --- | --- | | **B.** | |  | | --- | | Sale of a new share of stock to an individual investor. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Stock ownership transfer from one shareholder to another shareholder. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Gift of stock from one shareholder to another shareholder. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Gift of stock by a shareholder to a family member. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Primary and secondary markets* |

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| 56. | |  | | --- | | Shareholder A sold 500 shares of ABC stock on the New York Stock Exchange. This transaction: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Took place in the primary market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Occurred in a dealer market. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Was facilitated in the secondary market. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Involved a proxy. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Was a private placement. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Primary and secondary markets* |

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| 57. | |  | | --- | | Public offerings of debt and equity must be registered with which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | New York Board of Governors. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Federal Reserve. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | NYSE Registration Office. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Securities and Exchange Commission. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Market Dealers Exchange. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Basics of issuing securities* |

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| 58. | |  | | --- | | Which one of the following statements is generally correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Private placements must be registered with the SEC. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | All secondary markets are auction markets. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Dealer markets have a physical trading floor. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Auction markets match buy and sell orders. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Dealers arrange trades but never own the securities traded. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Basics of issuing securities* |

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| 59. | |  | | --- | | Which one of the following statements concerning stock exchanges is correct? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | NASDAQ is a broker market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The NYSE is a dealer market. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | The exchange with the strictest listing requirements is NASDAQ. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Some large companies are listed on NASDAQ. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Most debt securities are traded on the NYSE. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Stock exchanges* |

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| 60. | |  | | --- | | Shareholder A sold shares of Maplewood Cabinets stock to Shareholder B. The stock is listed on the NYSE. This trade occurred in which one of the following? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Primary, dealer market. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Secondary, dealer market. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Primary, auction market. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Secondary, auction market. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Secondary, OTC market. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Stock exchanges* |

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| 61. | |  | | --- | | Which one of the following statements is correct concerning the NYSE? |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | The publicly traded shares of a NYSE-listed firm must be worth at least $250 million. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The NYSE is the largest dealer market for listed securities in the United States. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | The listing requirements for the NYSE are more stringent than those of NASDAQ. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Any corporation desiring to be listed on the NYSE can do so for a fee. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The NYSE is an OTC market functioning as both a primary and a secondary market. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Intermediate Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.5 Financial Markets and the Corporation Topic: Stock exchanges* |

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| 62. | |  | | --- | | Which one of these is a working capital management decision? |       |  |  |  | | --- | --- | --- | | **A.** | |  | | --- | | Determining the minimum level of cash to be kept in a checking account. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Determining the best method of producing a product. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Determining the number of employees needed to work during a particular shift. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Determining when to replace obsolete equipment. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Determining if a competitor should be acquired. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager. Section: 1.1 Corporate Finance and the Financial Manager Topic: Financial management decisions* |

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| 63. | |  | | --- | | The growth of both sole proprietorships and partnerships is frequently limited by their: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Double taxation. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Bylaws. | |  |  |  |  | | --- | --- | --- | | **C.** | |  | | --- | | Inability to raise cash. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Limited liability. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | Organizational articles. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 64. | |  | | --- | | Corporate dividends are: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Tax-free income because they represent a repayment of the cost to purchase corporate shares. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | Not taxed as shareholders pay taxes on corporate income when it is earned. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Tax-free since the corporation pays tax on that income when it is earned. | |  |  |  |  | | --- | --- | --- | | D. | |  | | --- | | Taxed at both the corporate and the personal level when the dividends are paid. | |  |  |  |  | | --- | --- | --- | | **E.** | |  | | --- | | Taxable as personal income when received by shareholders even though that income was taxed at the corporate level. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Learning Objective: 01-03 The financial implications of the different forms of business organization. Section: 1.2 Forms of Business Organization Topic: Forms of business organization* |

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| 65. | |  | | --- | | Financial managers should primarily focus on the interests of: |       |  |  |  | | --- | --- | --- | | A. | |  | | --- | | Stakeholders. | |  |  |  |  | | --- | --- | --- | | B. | |  | | --- | | The vice president of finance. | |  |  |  |  | | --- | --- | --- | | C. | |  | | --- | | Their immediate supervisor. | |  |  |  |  | | --- | --- | --- | | **D.** | |  | | --- | | Shareholders. | |  |  |  |  | | --- | --- | --- | | E. | |  | | --- | | The board of directors. | | |

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| *AACSB: Analytic Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Basic Section: 1.3 The Goal of Financial Management Topic: Goal of financial management* |