Chapter 01

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| 1. | Which one of these is a correct definition?      |  |  | | --- | --- | | A. | Net working capital equals current assets plus current liabilities. |  |  |  | | --- | --- | | B. | Current liabilities are debts that must be repaid in 18 months or less. |  |  |  | | --- | --- | | C. | Current assets are assets with short lives, such as inventory. |  |  |  | | --- | --- | | D. | Long-term debt is defined as a residual claim on a firm’s assets. |  |  |  | | --- | --- | | E. | Tangible assets are fixed assets such as patents. | |

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| 2. | The corporate controller is generally responsible for which one of these functions?      |  |  | | --- | --- | | A. | capital expenditures |  |  |  | | --- | --- | | B. | cash management |  |  |  | | --- | --- | | C. | tax reporting |  |  |  | | --- | --- | | D. | financial planning |  |  |  | | --- | --- | | E. | credit management | |

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| 3. | The corporate treasurer oversees which one of these areas?      |  |  | | --- | --- | | A. | financial planning |  |  |  | | --- | --- | | B. | cost  accounting |  |  |  | | --- | --- | | C. | tax reporting |  |  |  | | --- | --- | | D. | information systems |  |  |  | | --- | --- | | E. | financial accounting | |

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| 4. | A firm’s capital structure refers to the firm’s:      |  |  | | --- | --- | | A. | mixture of various types of production equipment. |  |  |  | | --- | --- | | B. | investment selections for its excess cash reserves. |  |  |  | | --- | --- | | C. | combination of cash and cash equivalents. |  |  |  | | --- | --- | | D. | combination of accounts appearing on the left side of its balance sheet. |  |  |  | | --- | --- | | E. | proportions of financing from current and long-term debt and equity. | |

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| 5. | Short-term finance deals with:      |  |  | | --- | --- | | A. | the timing of cash flows. |  |  |  | | --- | --- | | B. | acquiring and selling fixed assets. |  |  |  | | --- | --- | | C. | financing long-term projects. |  |  |  | | --- | --- | | D. | capital budgeting. |  |  |  | | --- | --- | | E. | issuing additional shares of common stock. | |

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| 6. | Which one of these best fits the description of an agency cost?      |  |  | | --- | --- | | A. | increasing the dividend payments per share |  |  |  | | --- | --- | | B. | the benefits received from reducing production costs per unit |  |  |  | | --- | --- | | C. | the payment of corporate income taxes |  |  |  | | --- | --- | | D. | the payment required for an outside audit of the firm |  |  |  | | --- | --- | | E. | the payment of interest on a firm’s debts | |

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| 7. | Which one of these accounts is included in net working capital?      |  |  | | --- | --- | | A. | copyright |  |  |  | | --- | --- | | B. | manufacturing equipment |  |  |  | | --- | --- | | C. | common stock |  |  |  | | --- | --- | | D. | long-term debt |  |  |  | | --- | --- | | E. | inventory | |

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| 8. | Financial managers primarily create firm value by:      |  |  | | --- | --- | | A. | maximizing current dividends. |  |  |  | | --- | --- | | B. | investing in assets that generate cash in excess of their cost. |  |  |  | | --- | --- | | C. | lowering the earnings per share. |  |  |  | | --- | --- | | D. | increasing the firm’s market share. |  |  |  | | --- | --- | | E. | maximizing current sales. | |

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| 9. | Which one of these is a cash outflow from a corporation?      |  |  | | --- | --- | | A. | sale of an asset |  |  |  | | --- | --- | | B. | dividend payment |  |  |  | | --- | --- | | C. | sale of common stock |  |  |  | | --- | --- | | D. | issuance of debt |  |  |  | | --- | --- | | E. | profit retained by the firm | |

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| 10. | For a firm to create value it must:      |  |  | | --- | --- | | A. | have a greater cash inflow from its stockholders than its outflow to them. |  |  |  | | --- | --- | | B. | create more cash flow than it uses. |  |  |  | | --- | --- | | C. | reduce its investment in fixed assets since fixed assets require the use of cash. |  |  |  | | --- | --- | | D. | avoid payments to the government so dividends can be increased. |  |  |  | | --- | --- | | E. | avoid the issuance of debt securities. | |

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| 11. | If a firm is currently profitable, then:      |  |  | | --- | --- | | A. | its current cash inflows must exceed its current cash outflows. |  |  |  | | --- | --- | | B. | its reported sales exceed its costs. |  |  |  | | --- | --- | | C. | its cash flows are known with certainty. |  |  |  | | --- | --- | | D. | it will always have sufficient cash to pay its bills in a timely manner. |  |  |  | | --- | --- | | E. | the timing of the cash flows on proposed projects is irrelevant. | |

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| 12. | Which one of these statements is correct?      |  |  | | --- | --- | | A. | All overseas operations present the same amount of risk. |  |  |  | | --- | --- | | B. | The value of an investment by a firm depends on the size, the timing, and the risk of the investment’s cash flows. |  |  |  | | --- | --- | | C. | When selecting one of two projects, managers should only consider the total cash flow from each. |  |  |  | | --- | --- | | D. | Most investors prefer greater risk over less risk. |  |  |  | | --- | --- | | E. | Accountants record sales and expenses after the related cash flows occur. | |

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| 13. | The ultimate control of a corporation lies in the hands of the corporate:      |  |  | | --- | --- | | A. | board of directors. |  |  |  | | --- | --- | | B. | stockholders. |  |  |  | | --- | --- | | C. | president. |  |  |  | | --- | --- | | D. | chief executive officer. |  |  |  | | --- | --- | | E. | chairman of the board. | |

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| 14. | The process of planning and managing a firm's long-term assets is called:      |  |  | | --- | --- | | A. | working capital management. |  |  |  | | --- | --- | | B. | financial depreciation. |  |  |  | | --- | --- | | C. | agency cost analysis. |  |  |  | | --- | --- | | D. | capital budgeting. |  |  |  | | --- | --- | | E. | capital structure. | |

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| 15. | A business owned by a single individual is called a:      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| 16. | A business formed by two or more individuals who each have unlimited personal liability for all of the firm’s debts is called a:      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| 17. | The understanding of the work and cash to be contributed  to a partnership by each member of that partnership is formalized in the:      |  |  | | --- | --- | | A. | indemnity clause. |  |  |  | | --- | --- | | B. | indenture contract. |  |  |  | | --- | --- | | C. | statement of purpose. |  |  |  | | --- | --- | | D. | partnership agreement. |  |  |  | | --- | --- | | E. | group charter. | |

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| 18. | A business created as a distinct legal entity is called a:      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | unlimited liability company. | |

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| 19. | Which corporate document sets forth the number of members on the original board of directors?      |  |  | | --- | --- | | A. | indenture contract. |  |  |  | | --- | --- | | B. | state tax agreement. |  |  |  | | --- | --- | | C. | corporate bylaws. |  |  |  | | --- | --- | | D. | debt charter. |  |  |  | | --- | --- | | E. | articles of incorporation. | |

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| 20. | The rules by which corporations govern themselves are called:      |  |  | | --- | --- | | A. | indenture provisions. |  |  |  | | --- | --- | | B. | indemnity provisions. |  |  |  | | --- | --- | | C. | charter agreements. |  |  |  | | --- | --- | | D. | bylaws. |  |  |  | | --- | --- | | E. | articles of incorporation. | |

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| 21. | A business entity operated and taxed like a partnership, but with limited liability for the owners, is called a:      |  |  | | --- | --- | | A. | limited liability company. |  |  |  | | --- | --- | | B. | general partnership. |  |  |  | | --- | --- | | C. | limited proprietorship. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | corporation. | |

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| 22. | The primary goal of financial management is to:      |  |  | | --- | --- | | A. | maximize current dividends per share of the existing stock. |  |  |  | | --- | --- | | B. | maximize the current value per share of the existing stock. |  |  |  | | --- | --- | | C. | avoid financial distress. |  |  |  | | --- | --- | | D. | minimize operational costs and maximize firm efficiency. |  |  |  | | --- | --- | | E. | maintain steady growth in both sales and net earnings. | |

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| 23. | A conflict of interest between the stockholders and management of a firm is referred to as the:      |  |  | | --- | --- | | A. | stockholders' liability. |  |  |  | | --- | --- | | B. | corporate breakdown. |  |  |  | | --- | --- | | C. | agency problem. |  |  |  | | --- | --- | | D. | corporate activism. |  |  |  | | --- | --- | | E. | legal liability. | |

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| 24. | Agency costs refer to:      |  |  | | --- | --- | | A. | the total dividends paid to stockholders over the lifetime of a firm. |  |  |  | | --- | --- | | B. | the costs that result from default and bankruptcy of a firm. |  |  |  | | --- | --- | | C. | corporate income subject to double taxation. |  |  |  | | --- | --- | | D. | the costs of any conflicts of interest between stockholders and management. |  |  |  | | --- | --- | | E. | the total interest paid to creditors over the lifetime of the firm. | |

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| 25. | A stakeholder is any person or entity:      |  |  | | --- | --- | | A. | owning shares of stock of a corporation. |  |  |  | | --- | --- | | B. | owning bonds or other long-term debt issued by a corporation. |  |  |  | | --- | --- | | C. | that initially started a firm and currently has management control over that firm. |  |  |  | | --- | --- | | D. | to whom the firm currently owes money. |  |  |  | | --- | --- | | E. | other than a stockholder or creditor who potentially has a financial interest in the firm. | |

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| 26. | One intent of the Sarbanes Oxley Act of 2002 is to:      |  |  | | --- | --- | | A. | prevent minority investors from making demands on corporations. |  |  |  | | --- | --- | | B. | protect corporate directors from frivolous lawsuits. |  |  |  | | --- | --- | | C. | guarantee the repayment of all future personal loans to corporate officers and directors. |  |  |  | | --- | --- | | D. | protect investors from corporate abuses. |  |  |  | | --- | --- | | E. | require all public corporations to “go dark” within the next 20 years. | |

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| 27. | The treasurer and the controller of a corporation generally report to the:      |  |  | | --- | --- | | A. | board of directors. |  |  |  | | --- | --- | | B. | chairman of the board. |  |  |  | | --- | --- | | C. | chief executive officer. |  |  |  | | --- | --- | | D. | president. |  |  |  | | --- | --- | | E. | chief financial officer. | |

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| 28. | Which one of the following statements is correct concerning the organizational structure of a corporation?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | B. | The controller reports to the chief financial officer. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The board of directors reports to the corporate president. | |

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| 29. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | determining how much debt should be borrowed from a particular lender |  |  |  | | --- | --- | | B. | deciding whether or not a new production facility should be built |  |  |  | | --- | --- | | C. | deciding when to repay a long-term debt |  |  |  | | --- | --- | | D. | determining how much inventory to keep on hand |  |  |  | | --- | --- | | E. | deciding how much credit to grant to a particular customer | |

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| 30. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | A sole proprietorship is difficult to form. |  |  |  | | --- | --- | | B. | The business profits are taxed twice at the federal level. |  |  |  | | --- | --- | | C. | The business profits are taxed separately from the personal income of the owner. |  |  |  | | --- | --- | | D. | The owner may be forced to sell his/her personal assets to pay company debts. |  |  |  | | --- | --- | | E. | A sole proprietorship has an unlimited life. | |

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| 31. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | The life of the firm is limited to the life span of the owner. |  |  |  | | --- | --- | | B. | The owner can generally raise large sums of capital quite easily. |  |  |  | | --- | --- | | C. | The ownership of the firm is easy to transfer to another individual. |  |  |  | | --- | --- | | D. | The company must pay separate taxes from those paid by the owner. |  |  |  | | --- | --- | | E. | The legal costs to form a sole proprietorship are quite substantial. | |

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| 32. | Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?      |  |  | | --- | --- | | A. | entitlement to a larger portion of the partnership's income |  |  |  | | --- | --- | | B. | ability to manage the day-to-day affairs of the business |  |  |  | | --- | --- | | C. | no potential financial loss |  |  |  | | --- | --- | | D. | greater management responsibility |  |  |  | | --- | --- | | E. | liability for firm debts is limited to the capital invested | |

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| 33. | A general partner:      |  |  | | --- | --- | | A. | has less legal liability than a limited partner. |  |  |  | | --- | --- | | B. | can end the partnership by withdrawing. |  |  |  | | --- | --- | | C. | faces double taxation whereas a limited partner does not. |  |  |  | | --- | --- | | D. | cannot lose more than the amount of his/her equity investment. |  |  |  | | --- | --- | | E. | is the term applied only to corporations which invest in partnerships. | |

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| 34. | A partnership:      |  |  | | --- | --- | | A. | is taxed the same as a corporation. |  |  |  | | --- | --- | | B. | terminates at the death of any limited partner. |  |  |  | | --- | --- | | C. | creates an unlimited liability for all general partners for the partnership debts. |  |  |  | | --- | --- | | D. | has the same ability to raise capital as a corporation does. |  |  |  | | --- | --- | | E. | allows for easy transfer of interest from one general partner to another. | |

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| 35. | One advantage of a partnership is the:      |  |  | | --- | --- | | A. | personal liability for all firm debts. |  |  |  | | --- | --- | | B. | limited life of the entity. |  |  |  | | --- | --- | | C. | limited liability protection for all of the partners. |  |  |  | | --- | --- | | D. | relatively low formation cost. |  |  |  | | --- | --- | | E. | division of management control between general and limited partners. | |

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| 36. | One disadvantage of the corporate form of business ownership is the:      |  |  | | --- | --- | | A. | limited liability protection provided for all owners. |  |  |  | | --- | --- | | B. | firm’s ability to raise cash. |  |  |  | | --- | --- | | C. | unlimited life of the firm. |  |  |  | | --- | --- | | D. | difficulties encountered when changing ownership. |  |  |  | | --- | --- | | E. | double taxation of profits. | |

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| 37. | Which one of the following statements is correct?      |  |  | | --- | --- | | A. | Both partnerships and corporations incur double taxation. |  |  |  | | --- | --- | | B. | Sole proprietorships and partnerships are taxed in a similar fashion. |  |  |  | | --- | --- | | C. | Partnerships are the most complicated type of business to form. |  |  |  | | --- | --- | | D. | Both partnerships and corporations have limited liability for general partners and shareholders. |  |  |  | | --- | --- | | E. | All types of business formations have limited lives. | |

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| 38. | The articles of incorporation:      |  |  | | --- | --- | | A. | can be used to remove company management. |  |  |  | | --- | --- | | B. | are amended annually by the company stockholders. |  |  |  | | --- | --- | | C. | set forth the number of shares of stock that can be issued. |  |  |  | | --- | --- | | D. | set forth the rules by which the corporation regulates its existence. |  |  |  | | --- | --- | | E. | can set forth the conditions under which the firm can avoid double taxation. | |

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| 39. | Corporate bylaws:      |  |  | | --- | --- | | A. | establish the name of the corporation. |  |  |  | | --- | --- | | B. | establish the rights granted to its shareholders. |  |  |  | | --- | --- | | C. | set forth the purpose of the firm. |  |  |  | | --- | --- | | D. | establish the rules by which the firm regulates its existence. |  |  |  | | --- | --- | | E. | set forth the procedure by which the stockholders elect the senior managers of the firm. | |

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| 40. | The owners of a limited liability company generally prefer:      |  |  | | --- | --- | | A. | being taxed like a corporation. |  |  |  | | --- | --- | | B. | having liability exposure similar to that of a sole proprietor. |  |  |  | | --- | --- | | C. | being taxed personally on all business income. |  |  |  | | --- | --- | | D. | having liability exposure similar to that of a general partner. |  |  |  | | --- | --- | | E. | being taxed like a corporation with liability like a partnership. | |

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| 41. | 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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| 42. | Which type of business organization has 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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| 43. | Financial managers should primarily strive to:      |  |  | | --- | --- | | A. | minimize costs while increasing current dividends. |  |  |  | | --- | --- | | B. | maximize the current profits of the firm. |  |  |  | | --- | --- | | C. | maximize the current value per share of existing stock. |  |  |  | | --- | --- | | D. | maximize current dividends even if doing so adds financial distress costs to the firm. |  |  |  | | --- | --- | | E. | maximize current market share in every market in which the firm participates. | |

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| 44. | The decisions made by financial managers should all be ones which increase the:      |  |  | | --- | --- | | A. | size of the firm. |  |  |  | | --- | --- | | B. | growth rate of the firm. |  |  |  | | --- | --- | | C. | marketability of the managers. |  |  |  | | --- | --- | | D. | market value of the existing owners' equity. |  |  |  | | --- | --- | | E. | firm’s current sales. | |

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| 45. | Which one of the following actions by a financial manager creates 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. | agreeing to expand the company at the expense of stockholders' value |  |  |  | | --- | --- | | D. | agreeing to pay bonuses based on the market value of the company’s stock |  |  |  | | --- | --- | | E. | increasing current costs in order to increase the market value of the stockholders' equity | |

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| 46. | Which one of the following is least apt to help convince managers to work in the best interest of the stockholders?      |  |  | | --- | --- | | A. | threat of a takeover of the firm by unsatisfied stockholders |  |  |  | | --- | --- | | B. | implementation of a stock option plan |  |  |  | | --- | --- | | C. | pay raises based on length of service |  |  |  | | --- | --- | | D. | management compensation tied to the market value of the firm’s stock |  |  |  | | --- | --- | | E. | threat of a proxy fight | |

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| 47. | Which form of business structure faces the greatest agency problems?      |  |  | | --- | --- | | A. | sole proprietorship |  |  |  | | --- | --- | | B. | general partnership |  |  |  | | --- | --- | | C. | limited partnership |  |  |  | | --- | --- | | D. | corporation |  |  |  | | --- | --- | | E. | limited liability company | |

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| 48. | A proxy fight occurs when:      |  |  | | --- | --- | | A. | the board of directors disagree on the members of the management team. |  |  |  | | --- | --- | | B. | a group solicits voting rights to replace the board of directors. |  |  |  | | --- | --- | | C. | a competitor offers to sell their ownership interest in the firm. |  |  |  | | --- | --- | | D. | the firm files for bankruptcy. |  |  |  | | --- | --- | | E. | the firm is declared insolvent. | |

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| 49. | Which one of the following parties is considered a stakeholder of a firm?      |  |  | | --- | --- | | A. | customer |  |  |  | | --- | --- | | B. | short-term creditor |  |  |  | | --- | --- | | C. | long-term creditor |  |  |  | | --- | --- | | D. | preferred stockholder |  |  |  | | --- | --- | | E. | common stockholder | |

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| 50. | The Sarbanes-Oxley Act requires public corporations to:      |  |  | | --- | --- | | A. | assess the company’s internal control structure at least quarterly. |  |  |  | | --- | --- | | B. | distribute at least 90 percent of their profits in dividends on an annual basis. |  |  |  | | --- | --- | | C. | list any deficiencies in internal controls. |  |  |  | | --- | --- | | D. | file annual audit reports if the firm has “gone dark”. |  |  |  | | --- | --- | | E. | disclose all personal loans to corporate officers or directors made after 2002. | |

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| 51. | Insider trading is:      |  |  | | --- | --- | | A. | prohibited by the Securities Act of 1933. |  |  |  | | --- | --- | | B. | prohibited by the Securities Exchange Act of 1934. |  |  |  | | --- | --- | | C. | impossible in today’s efficient markets. |  |  |  | | --- | --- | | D. | highly discouraged, but still legal. |  |  |  | | --- | --- | | E. | prohibited by the Sarbanes-Oxley Act of 2002. | |

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| 52. | The basic regulatory framework for the public trading of securities in the United States was provided by the:      |  |  | | --- | --- | | A. | New York Stock Exchange when it was founded. |  |  |  | | --- | --- | | B. | Securities Exchange Act of 1934. |  |  |  | | --- | --- | | C. | Federal Reserve Bank. |  |  |  | | --- | --- | | D. | Securities Act of 1933 and the Securities Exchange Act of 1934. |  |  |  | | --- | --- | | E. | Sarbanes-Oxley Act in 2002. | |

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| 53. | The Securities Act of 1933 focuses on:      |  |  | | --- | --- | | A. | all stock transactions. |  |  |  | | --- | --- | | B. | the sales of existing securities. |  |  |  | | --- | --- | | C. | the issuance of new securities. |  |  |  | | --- | --- | | D. | insider trading. |  |  |  | | --- | --- | | E. | Federal Deposit Insurance Corporation (FDIC) insurance. | |

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| 54. | In a limited partnership each limited partner’s:      |  |  | | --- | --- | | A. | liability is limited to his or her personal net worth. |  |  |  | | --- | --- | | B. | liability is limited to the amount he or she invested into the partnership. |  |  |  | | --- | --- | | C. | liability is limited to his or her total earnings received from the partnership. |  |  |  | | --- | --- | | D. | contribution to the partnership is limited. |  |  |  | | --- | --- | | E. | liability is limited to the total amount invested by all partners. | |

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| 55. | Accounting profits and cash flows are generally:      |  |  | | --- | --- | | A. | the same since they reflect current laws and accounting standards. |  |  |  | | --- | --- | | B. | the same since accounting profits reflect when cash flows occur. |  |  |  | | --- | --- | | C. | different because of GAAP rules regarding the recognition of income. |  |  |  | | --- | --- | | D. | different because cash inflows must occur before revenue recognition. |  |  |  | | --- | --- | | E. | the same due to the requirements of GAAP. | |

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| 56. | The chief operations officer typically reports directly to the:      |  |  | | --- | --- | | A. | chief executive officer. |  |  |  | | --- | --- | | B. | shareholders. |  |  |  | | --- | --- | | C. | company president. |  |  |  | | --- | --- | | D. | chief financial officer. |  |  |  | | --- | --- | | E. | controller. | |

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| 57. | The cheapest business entity to form is typically the:      |  |  | | --- | --- | | A. | limited liability company. |  |  |  | | --- | --- | | B. | joint stock company. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | sole proprietorship. | |

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| 58. | In a general partnership, the general partners have \_\_\_\_\_ liability and have \_\_\_\_\_ control over day-to-day operations.      |  |  | | --- | --- | | A. | limited; no |  |  |  | | --- | --- | | B. | unlimited; total |  |  |  | | --- | --- | | C. | limited; total |  |  |  | | --- | --- | | D. | unlimited; no |  |  |  | | --- | --- | | E. | no; total | |

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| 59. | List and briefly describe the three basic areas addressed by a financial manager. |

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| 60. | What advantages and disadvantages does the corporate form of organization have compared to sole proprietorships and general partnerships? |

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| 61. | If the corporate form of business organization has so many advantages over the sole proprietorship, why is it so common for small businesses to initially be formed as sole proprietorships? |

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| 62. | What should be the primary goal of the financial manager of a corporation? Why? |

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| 63. | One thing lenders sometimes require when loaning money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here? |

Chapter 01 Key

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| 1. | Which one of these is a correct definition?      |  |  | | --- | --- | | A. | Net working capital equals current assets plus current liabilities. |  |  |  | | --- | --- | | B. | Current liabilities are debts that must be repaid in 18 months or less. |  |  |  | | --- | --- | | **C.** | Current assets are assets with short lives, such as inventory. |  |  |  | | --- | --- | | D. | Long-term debt is defined as a residual claim on a firm’s assets. |  |  |  | | --- | --- | | E. | Tangible assets are fixed assets such as patents. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #1 Section: 1.1 Topic: Introduction to corporate finance* |

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| 2. | The corporate controller is generally responsible for which one of these functions?      |  |  | | --- | --- | | A. | capital expenditures |  |  |  | | --- | --- | | B. | cash management |  |  |  | | --- | --- | | **C.** | tax reporting |  |  |  | | --- | --- | | D. | financial planning |  |  |  | | --- | --- | | E. | credit management | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #2 Section: 1.1 Topic: Management organization and roles* |

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| 3. | The corporate treasurer oversees which one of these areas?      |  |  | | --- | --- | | **A.** | financial planning |  |  |  | | --- | --- | | B. | cost  accounting |  |  |  | | --- | --- | | C. | tax reporting |  |  |  | | --- | --- | | D. | information systems |  |  |  | | --- | --- | | E. | financial accounting | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #3 Section: 1.1 Topic: Management organization and roles* |

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| 4. | A firm’s capital structure refers to the firm’s:      |  |  | | --- | --- | | A. | mixture of various types of production equipment. |  |  |  | | --- | --- | | B. | investment selections for its excess cash reserves. |  |  |  | | --- | --- | | C. | combination of cash and cash equivalents. |  |  |  | | --- | --- | | D. | combination of accounts appearing on the left side of its balance sheet. |  |  |  | | --- | --- | | **E.** | proportions of financing from current and long-term debt and equity. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #4 Section: 1.1 Topic: Capital structure* |

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| 5. | Short-term finance deals with:      |  |  | | --- | --- | | **A.** | the timing of cash flows. |  |  |  | | --- | --- | | B. | acquiring and selling fixed assets. |  |  |  | | --- | --- | | C. | financing long-term projects. |  |  |  | | --- | --- | | D. | capital budgeting. |  |  |  | | --- | --- | | E. | issuing additional shares of common stock. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #5 Section: 1.1 Topic: Financial management decisions* |

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| 6. | Which one of these best fits the description of an agency cost?      |  |  | | --- | --- | | A. | increasing the dividend payments per share |  |  |  | | --- | --- | | B. | the benefits received from reducing production costs per unit |  |  |  | | --- | --- | | C. | the payment of corporate income taxes |  |  |  | | --- | --- | | **D.** | the payment required for an outside audit of the firm |  |  |  | | --- | --- | | E. | the payment of interest on a firm’s debts | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #6 Section: 1.5 Topic: Agency problems and issues* |

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| 7. | Which one of these accounts is included in net working capital?      |  |  | | --- | --- | | A. | copyright |  |  |  | | --- | --- | | B. | manufacturing equipment |  |  |  | | --- | --- | | C. | common stock |  |  |  | | --- | --- | | D. | long-term debt |  |  |  | | --- | --- | | **E.** | inventory | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #7 Section: 1.1 Topic: Net working capital* |

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| 8. | Financial managers primarily create firm value by:      |  |  | | --- | --- | | A. | maximizing current dividends. |  |  |  | | --- | --- | | **B.** | investing in assets that generate cash in excess of their cost. |  |  |  | | --- | --- | | C. | lowering the earnings per share. |  |  |  | | --- | --- | | D. | increasing the firm’s market share. |  |  |  | | --- | --- | | E. | maximizing current sales. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #8 Section: 1.3 Topic: Cash flows* |

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| 9. | Which one of these is a cash outflow from a corporation?      |  |  | | --- | --- | | A. | sale of an asset |  |  |  | | --- | --- | | **B.** | dividend payment |  |  |  | | --- | --- | | C. | sale of common stock |  |  |  | | --- | --- | | D. | issuance of debt |  |  |  | | --- | --- | | E. | profit retained by the firm | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #9 Section: 1.3 Topic: Cash flows* |

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| 10. | For a firm to create value it must:      |  |  | | --- | --- | | A. | have a greater cash inflow from its stockholders than its outflow to them. |  |  |  | | --- | --- | | **B.** | create more cash flow than it uses. |  |  |  | | --- | --- | | C. | reduce its investment in fixed assets since fixed assets require the use of cash. |  |  |  | | --- | --- | | D. | avoid payments to the government so dividends can be increased. |  |  |  | | --- | --- | | E. | avoid the issuance of debt securities. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #10 Section: 1.3 Topic: Cash flows* |

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| 11. | If a firm is currently profitable, then:      |  |  | | --- | --- | | A. | its current cash inflows must exceed its current cash outflows. |  |  |  | | --- | --- | | **B.** | its reported sales exceed its costs. |  |  |  | | --- | --- | | C. | its cash flows are known with certainty. |  |  |  | | --- | --- | | D. | it will always have sufficient cash to pay its bills in a timely manner. |  |  |  | | --- | --- | | E. | the timing of the cash flows on proposed projects is irrelevant. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #11 Section: 1.3 Topic: Cash flows* |

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| 12. | Which one of these statements is correct?      |  |  | | --- | --- | | A. | All overseas operations present the same amount of risk. |  |  |  | | --- | --- | | **B.** | The value of an investment by a firm depends on the size, the timing, and the risk of the investment’s cash flows. |  |  |  | | --- | --- | | C. | When selecting one of two projects, managers should only consider the total cash flow from each. |  |  |  | | --- | --- | | D. | Most investors prefer greater risk over less risk. |  |  |  | | --- | --- | | E. | Accountants record sales and expenses after the related cash flows occur. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #12 Section: 1.3 Topic: Cash flows* |

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| 13. | The ultimate control of a corporation lies in the hands of the corporate:      |  |  | | --- | --- | | A. | board of directors. |  |  |  | | --- | --- | | **B.** | stockholders. |  |  |  | | --- | --- | | C. | president. |  |  |  | | --- | --- | | D. | chief executive officer. |  |  |  | | --- | --- | | E. | chairman of the board. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #13 Section: 1.5 Topic: Agency problems and issues* |

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| 14. | The process of planning and managing a firm's long-term assets is called:      |  |  | | --- | --- | | A. | working capital management. |  |  |  | | --- | --- | | B. | financial depreciation. |  |  |  | | --- | --- | | C. | agency cost analysis. |  |  |  | | --- | --- | | **D.** | capital budgeting. |  |  |  | | --- | --- | | E. | capital structure. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #14 Section: 1.1 Topic: Financial management decisions Topic: What is Corporate Finance?* |

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| 15. | A business owned by a single individual is called a:      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | **B.** | sole proprietorship. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #15 Section: 1.2 Topic: Forms of business organization* |

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| 16. | A business formed by two or more individuals who each have unlimited personal liability for all of the firm’s debts is called a:      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | **C.** | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | limited liability company. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #16 Section: 1.2 Topic: Forms of business organization* |

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| 17. | The understanding of the work and cash to be contributed  to a partnership by each member of that partnership is formalized in the:      |  |  | | --- | --- | | A. | indemnity clause. |  |  |  | | --- | --- | | B. | indenture contract. |  |  |  | | --- | --- | | C. | statement of purpose. |  |  |  | | --- | --- | | **D.** | partnership agreement. |  |  |  | | --- | --- | | E. | group charter. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #17 Section: 1.2 Topic: Forms of business organization* |

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| 18. | A business created as a distinct legal entity is called a:      |  |  | | --- | --- | | **A.** | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | unlimited liability company. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #18 Section: 1.2 Topic: Forms of business organization* |

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| 19. | Which corporate document sets forth the number of members on the original board of directors?      |  |  | | --- | --- | | A. | indenture contract. |  |  |  | | --- | --- | | B. | state tax agreement. |  |  |  | | --- | --- | | C. | corporate bylaws. |  |  |  | | --- | --- | | D. | debt charter. |  |  |  | | --- | --- | | **E.** | articles of incorporation. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #19 Section: 1.2 Topic: Forms of business organization* |

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| 20. | The rules by which corporations govern themselves are called:      |  |  | | --- | --- | | A. | indenture provisions. |  |  |  | | --- | --- | | B. | indemnity provisions. |  |  |  | | --- | --- | | C. | charter agreements. |  |  |  | | --- | --- | | **D.** | bylaws. |  |  |  | | --- | --- | | E. | articles of incorporation. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #20 Section: 1.2 Topic: Forms of business organization* |

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| 21. | A business entity operated and taxed like a partnership, but with limited liability for the owners, is called a:      |  |  | | --- | --- | | **A.** | limited liability company. |  |  |  | | --- | --- | | B. | general partnership. |  |  |  | | --- | --- | | C. | limited proprietorship. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | E. | corporation. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #21 Section: 1.2 Topic: Forms of business organization* |

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| 22. | The primary goal of financial management is to:      |  |  | | --- | --- | | A. | maximize current dividends per share of the existing stock. |  |  |  | | --- | --- | | **B.** | maximize the current value per share of the existing stock. |  |  |  | | --- | --- | | C. | avoid financial distress. |  |  |  | | --- | --- | | D. | minimize operational costs and maximize firm efficiency. |  |  |  | | --- | --- | | E. | maintain steady growth in both sales and net earnings. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #22 Section: 1.4 Topic: Goal of financial management* |

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| 23. | A conflict of interest between the stockholders and management of a firm is referred to as the:      |  |  | | --- | --- | | A. | stockholders' liability. |  |  |  | | --- | --- | | B. | corporate breakdown. |  |  |  | | --- | --- | | **C.** | agency problem. |  |  |  | | --- | --- | | D. | corporate activism. |  |  |  | | --- | --- | | E. | legal liability. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #23 Section: 1.5 Topic: Agency problems and issues* |

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| 24. | Agency costs refer to:      |  |  | | --- | --- | | A. | the total dividends paid to stockholders over the lifetime of a firm. |  |  |  | | --- | --- | | B. | the costs that result from default and bankruptcy of a firm. |  |  |  | | --- | --- | | C. | corporate income subject to double taxation. |  |  |  | | --- | --- | | **D.** | the costs of any conflicts of interest between stockholders and management. |  |  |  | | --- | --- | | E. | the total interest paid to creditors over the lifetime of the firm. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #24 Section: 1.5 Topic: Agency problems and issues* |

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| 25. | A stakeholder is any person or entity:      |  |  | | --- | --- | | A. | owning shares of stock of a corporation. |  |  |  | | --- | --- | | B. | owning bonds or other long-term debt issued by a corporation. |  |  |  | | --- | --- | | C. | that initially started a firm and currently has management control over that firm. |  |  |  | | --- | --- | | D. | to whom the firm currently owes money. |  |  |  | | --- | --- | | **E.** | other than a stockholder or creditor who potentially has a financial interest in the firm. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #25 Section: 1.5 Topic: Introduction to corporate finance* |

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| 26. | One intent of the Sarbanes Oxley Act of 2002 is to:      |  |  | | --- | --- | | A. | prevent minority investors from making demands on corporations. |  |  |  | | --- | --- | | B. | protect corporate directors from frivolous lawsuits. |  |  |  | | --- | --- | | C. | guarantee the repayment of all future personal loans to corporate officers and directors. |  |  |  | | --- | --- | | **D.** | protect investors from corporate abuses. |  |  |  | | --- | --- | | E. | require all public corporations to “go dark” within the next 20 years. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #26 Section: 1.6 Topic: Ethics, governance, and regulation* |

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| 27. | The treasurer and the controller of a corporation generally report to the:      |  |  | | --- | --- | | A. | board of directors. |  |  |  | | --- | --- | | B. | chairman of the board. |  |  |  | | --- | --- | | C. | chief executive officer. |  |  |  | | --- | --- | | D. | president. |  |  |  | | --- | --- | | **E.** | chief financial officer. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #27 Section: 1.1 Topic: Management organization and roles* |

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| 28. | Which one of the following statements is correct concerning the organizational structure of a corporation?      |  |  | | --- | --- | | A. | The vice president of finance reports to the chairman of the board. |  |  |  | | --- | --- | | **B.** | The controller reports to the chief financial officer. |  |  |  | | --- | --- | | C. | The controller reports to the president. |  |  |  | | --- | --- | | D. | The treasurer reports to the chief executive officer. |  |  |  | | --- | --- | | E. | The board of directors reports to the corporate president. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #28 Section: 1.1 Topic: Management organization and roles* |

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| 29. | Which one of the following is a capital budgeting decision?      |  |  | | --- | --- | | A. | determining how much debt should be borrowed from a particular lender |  |  |  | | --- | --- | | **B.** | deciding whether or not a new production facility should be built |  |  |  | | --- | --- | | C. | deciding when to repay a long-term debt |  |  |  | | --- | --- | | D. | determining how much inventory to keep on hand |  |  |  | | --- | --- | | E. | deciding how much credit to grant to a particular customer | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #29 Section: 1.1 Topic: Financial management decisions* |

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| 30. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | A. | A sole proprietorship is difficult to form. |  |  |  | | --- | --- | | B. | The business profits are taxed twice at the federal level. |  |  |  | | --- | --- | | C. | The business profits are taxed separately from the personal income of the owner. |  |  |  | | --- | --- | | **D.** | The owner may be forced to sell his/her personal assets to pay company debts. |  |  |  | | --- | --- | | E. | A sole proprietorship has an unlimited life. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #30 Section: 1.2 Topic: Forms of business organization* |

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| 31. | Which one of the following statements concerning a sole proprietorship is correct?      |  |  | | --- | --- | | **A.** | The life of the firm is limited to the life span of the owner. |  |  |  | | --- | --- | | B. | The owner can generally raise large sums of capital quite easily. |  |  |  | | --- | --- | | C. | The ownership of the firm is easy to transfer to another individual. |  |  |  | | --- | --- | | D. | The company must pay separate taxes from those paid by the owner. |  |  |  | | --- | --- | | E. | The legal costs to form a sole proprietorship are quite substantial. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #31 Topic: Forms of business organization* |

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| 32. | Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?      |  |  | | --- | --- | | A. | entitlement to a larger portion of the partnership's income |  |  |  | | --- | --- | | B. | ability to manage the day-to-day affairs of the business |  |  |  | | --- | --- | | C. | no potential financial loss |  |  |  | | --- | --- | | D. | greater management responsibility |  |  |  | | --- | --- | | **E.** | liability for firm debts is limited to the capital invested | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #32 Topic: Forms of business organization* |

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| 33. | A general partner:      |  |  | | --- | --- | | A. | has less legal liability than a limited partner. |  |  |  | | --- | --- | | **B.** | can end the partnership by withdrawing. |  |  |  | | --- | --- | | C. | faces double taxation whereas a limited partner does not. |  |  |  | | --- | --- | | D. | cannot lose more than the amount of his/her equity investment. |  |  |  | | --- | --- | | E. | is the term applied only to corporations which invest in partnerships. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #33 Topic: Forms of business organization* |

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| 34. | A partnership:      |  |  | | --- | --- | | A. | is taxed the same as a corporation. |  |  |  | | --- | --- | | B. | terminates at the death of any limited partner. |  |  |  | | --- | --- | | **C.** | creates an unlimited liability for all general partners for the partnership debts. |  |  |  | | --- | --- | | D. | has the same ability to raise capital as a corporation does. |  |  |  | | --- | --- | | E. | allows for easy transfer of interest from one general partner to another. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #34 Topic: Forms of business organization* |

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| 35. | One advantage of a partnership is the:      |  |  | | --- | --- | | A. | personal liability for all firm debts. |  |  |  | | --- | --- | | B. | limited life of the entity. |  |  |  | | --- | --- | | C. | limited liability protection for all of the partners. |  |  |  | | --- | --- | | **D.** | relatively low formation cost. |  |  |  | | --- | --- | | E. | division of management control between general and limited partners. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #35 Section: 1.2 Topic: Forms of business organization* |

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| 36. | One disadvantage of the corporate form of business ownership is the:      |  |  | | --- | --- | | A. | limited liability protection provided for all owners. |  |  |  | | --- | --- | | B. | firm’s ability to raise cash. |  |  |  | | --- | --- | | C. | unlimited life of the firm. |  |  |  | | --- | --- | | D. | difficulties encountered when changing ownership. |  |  |  | | --- | --- | | **E.** | double taxation of profits. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #36 Section: 1.2 Topic: Forms of business organization* |

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| 37. | Which one of the following statements is correct?      |  |  | | --- | --- | | A. | Both partnerships and corporations incur double taxation. |  |  |  | | --- | --- | | **B.** | Sole proprietorships and partnerships are taxed in a similar fashion. |  |  |  | | --- | --- | | C. | Partnerships are the most complicated type of business to form. |  |  |  | | --- | --- | | D. | Both partnerships and corporations have limited liability for general partners and shareholders. |  |  |  | | --- | --- | | E. | All types of business formations have limited lives. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #37 Section: 1.2 Topic: Forms of business organization* |

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| 38. | The articles of incorporation:      |  |  | | --- | --- | | A. | can be used to remove company management. |  |  |  | | --- | --- | | B. | are amended annually by the company stockholders. |  |  |  | | --- | --- | | **C.** | set forth the number of shares of stock that can be issued. |  |  |  | | --- | --- | | D. | set forth the rules by which the corporation regulates its existence. |  |  |  | | --- | --- | | E. | can set forth the conditions under which the firm can avoid double taxation. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #38 Topic: Forms of business organization* |

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| 39. | Corporate bylaws:      |  |  | | --- | --- | | A. | establish the name of the corporation. |  |  |  | | --- | --- | | B. | establish the rights granted to its shareholders. |  |  |  | | --- | --- | | C. | set forth the purpose of the firm. |  |  |  | | --- | --- | | **D.** | establish the rules by which the firm regulates its existence. |  |  |  | | --- | --- | | E. | set forth the procedure by which the stockholders elect the senior managers of the firm. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #39 Section: 1.2 Topic: Forms of business organization* |

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| 40. | The owners of a limited liability company generally prefer:      |  |  | | --- | --- | | A. | being taxed like a corporation. |  |  |  | | --- | --- | | B. | having liability exposure similar to that of a sole proprietor. |  |  |  | | --- | --- | | **C.** | being taxed personally on all business income. |  |  |  | | --- | --- | | D. | having liability exposure similar to that of a general partner. |  |  |  | | --- | --- | | E. | being taxed like a corporation with liability like a partnership. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #40 Section: 1.2 Topic: Forms of business organization Topic: The Corporate Firm* |

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| 41. | 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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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #41 Section: 1.2 Topic: Forms of business organization* |

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| 42. | Which type of business organization has 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: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #42 Section: 1.2 Topic: Forms of business organization* |

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| 43. | Financial managers should primarily strive to:      |  |  | | --- | --- | | A. | minimize costs while increasing current dividends. |  |  |  | | --- | --- | | B. | maximize the current profits of the firm. |  |  |  | | --- | --- | | **C.** | maximize the current value per share of existing stock. |  |  |  | | --- | --- | | D. | maximize current dividends even if doing so adds financial distress costs to the firm. |  |  |  | | --- | --- | | E. | maximize current market share in every market in which the firm participates. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #43 Section: 1.4 Topic: Goal of financial management* |

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| 44. | The decisions made by financial managers should all be ones which increase the:      |  |  | | --- | --- | | A. | size of the firm. |  |  |  | | --- | --- | | B. | growth rate of the firm. |  |  |  | | --- | --- | | C. | marketability of the managers. |  |  |  | | --- | --- | | **D.** | market value of the existing owners' equity. |  |  |  | | --- | --- | | E. | firm’s current sales. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #44 Section: 1.4 Topic: Goal of financial management* |

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| 45. | Which one of the following actions by a financial manager creates 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.** | agreeing to expand the company at the expense of stockholders' value |  |  |  | | --- | --- | | D. | agreeing to pay bonuses based on the market value of the company’s stock |  |  |  | | --- | --- | | E. | increasing current costs in order to increase the market value of the stockholders' equity | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #45 Section: 1.4 Topic: Goal of financial management* |

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| 46. | Which one of the following is least apt to help convince managers to work in the best interest of the stockholders?      |  |  | | --- | --- | | A. | threat of a takeover of the firm by unsatisfied stockholders |  |  |  | | --- | --- | | B. | implementation of a stock option plan |  |  |  | | --- | --- | | **C.** | pay raises based on length of service |  |  |  | | --- | --- | | D. | management compensation tied to the market value of the firm’s stock |  |  |  | | --- | --- | | E. | threat of a proxy fight | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #46 Section: 1.5 Topic: Agency problems and issues Topic: The Agency Problem and Control of the Corporation* |

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| 47. | Which form of business structure faces the greatest agency problems?      |  |  | | --- | --- | | A. | sole proprietorship |  |  |  | | --- | --- | | B. | general partnership |  |  |  | | --- | --- | | C. | limited partnership |  |  |  | | --- | --- | | **D.** | corporation |  |  |  | | --- | --- | | E. | limited liability company | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #47 Section: 1.5 Topic: Agency problems and issues* |

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| 48. | A proxy fight occurs when:      |  |  | | --- | --- | | A. | the board of directors disagree on the members of the management team. |  |  |  | | --- | --- | | **B.** | a group solicits voting rights to replace the board of directors. |  |  |  | | --- | --- | | C. | a competitor offers to sell their ownership interest in the firm. |  |  |  | | --- | --- | | D. | the firm files for bankruptcy. |  |  |  | | --- | --- | | E. | the firm is declared insolvent. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #48 Section: 1.5 Topic: Agency problems and issues Topic: The Agency Problem and Control of the Corporation* |

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| 49. | Which one of the following parties is considered a stakeholder of a firm?      |  |  | | --- | --- | | **A.** | customer |  |  |  | | --- | --- | | B. | short-term creditor |  |  |  | | --- | --- | | C. | long-term creditor |  |  |  | | --- | --- | | D. | preferred stockholder |  |  |  | | --- | --- | | E. | common stockholder | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #49 Section: 1.5 Topic: Introduction to corporate finance* |

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| 50. | The Sarbanes-Oxley Act requires public corporations to:      |  |  | | --- | --- | | A. | assess the company’s internal control structure at least quarterly. |  |  |  | | --- | --- | | B. | distribute at least 90 percent of their profits in dividends on an annual basis. |  |  |  | | --- | --- | | **C.** | list any deficiencies in internal controls. |  |  |  | | --- | --- | | D. | file annual audit reports if the firm has “gone dark”. |  |  |  | | --- | --- | | E. | disclose all personal loans to corporate officers or directors made after 2002. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #50 Section: 1.6 Topic: Ethics, governance, and regulation Topic: Regulation* |

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| 51. | Insider trading is:      |  |  | | --- | --- | | A. | prohibited by the Securities Act of 1933. |  |  |  | | --- | --- | | **B.** | prohibited by the Securities Exchange Act of 1934. |  |  |  | | --- | --- | | C. | impossible in today’s efficient markets. |  |  |  | | --- | --- | | D. | highly discouraged, but still legal. |  |  |  | | --- | --- | | E. | prohibited by the Sarbanes-Oxley Act of 2002. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #51 Section: 1.6 Topic: Ethics, governance, and regulation* |

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| 52. | The basic regulatory framework for the public trading of securities in the United States was provided by the:      |  |  | | --- | --- | | A. | New York Stock Exchange when it was founded. |  |  |  | | --- | --- | | B. | Securities Exchange Act of 1934. |  |  |  | | --- | --- | | C. | Federal Reserve Bank. |  |  |  | | --- | --- | | **D.** | Securities Act of 1933 and the Securities Exchange Act of 1934. |  |  |  | | --- | --- | | E. | Sarbanes-Oxley Act in 2002. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #52 Section: 1.6 Topic: Ethics, governance, and regulation* |

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| 53. | The Securities Act of 1933 focuses on:      |  |  | | --- | --- | | A. | all stock transactions. |  |  |  | | --- | --- | | B. | the sales of existing securities. |  |  |  | | --- | --- | | **C.** | the issuance of new securities. |  |  |  | | --- | --- | | D. | insider trading. |  |  |  | | --- | --- | | E. | Federal Deposit Insurance Corporation (FDIC) insurance. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: Easy Ross - Chapter 01 #53 Section: 1.6 Topic: Ethics, governance, and regulation Topic: Regulation* |

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| 54. | In a limited partnership each limited partner’s:      |  |  | | --- | --- | | A. | liability is limited to his or her personal net worth. |  |  |  | | --- | --- | | **B.** | liability is limited to the amount he or she invested into the partnership. |  |  |  | | --- | --- | | C. | liability is limited to his or her total earnings received from the partnership. |  |  |  | | --- | --- | | D. | contribution to the partnership is limited. |  |  |  | | --- | --- | | E. | liability is limited to the total amount invested by all partners. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #54 Section: 1.2 Topic: Forms of business organization* |

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| 55. | Accounting profits and cash flows are generally:      |  |  | | --- | --- | | A. | the same since they reflect current laws and accounting standards. |  |  |  | | --- | --- | | B. | the same since accounting profits reflect when cash flows occur. |  |  |  | | --- | --- | | **C.** | different because of GAAP rules regarding the recognition of income. |  |  |  | | --- | --- | | D. | different because cash inflows must occur before revenue recognition. |  |  |  | | --- | --- | | E. | the same due to the requirements of GAAP. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #55 Section: 1.3 Topic: Generally Accepted Accounting Principles (GAAP)* |

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| 56. | The chief operations officer typically reports directly to the:      |  |  | | --- | --- | | **A.** | chief executive officer. |  |  |  | | --- | --- | | B. | shareholders. |  |  |  | | --- | --- | | C. | company president. |  |  |  | | --- | --- | | D. | chief financial officer. |  |  |  | | --- | --- | | E. | controller. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #56 Section: 1.1 Topic: Management organization and roles* |

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| 57. | The cheapest business entity to form is typically the:      |  |  | | --- | --- | | A. | limited liability company. |  |  |  | | --- | --- | | B. | joint stock company. |  |  |  | | --- | --- | | C. | general partnership. |  |  |  | | --- | --- | | D. | limited partnership. |  |  |  | | --- | --- | | **E.** | sole proprietorship. | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Medium Ross - Chapter 01 #57 Section: 1.2 Topic: Forms of business organization* |

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| 58. | In a general partnership, the general partners have \_\_\_\_\_ liability and have \_\_\_\_\_ control over day-to-day operations.      |  |  | | --- | --- | | A. | limited; no |  |  |  | | --- | --- | | **B.** | unlimited; total |  |  |  | | --- | --- | | C. | limited; total |  |  |  | | --- | --- | | D. | unlimited; no |  |  |  | | --- | --- | | E. | no; total | |

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| *AACSB: Analytical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: Easy Ross - Chapter 01 #58 Section: 1.2 Topic: Forms of business organization Topic: The Corporate Firm* |

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| 59. | List and briefly describe the three basic areas addressed by a financial manager.     The three areas are:    1. Capital budgeting: The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.  2. Capital structure: This refers to the specific mixture of current and long-term debt and equity a firm uses to finance its operations.  3. Working capital management: This refers to a firm's short-term assets and short-term liabilities. Managing the firm's working capital is a day-to-day activity that ensures the firm has sufficient resources to continue its operations and avoid costly interruptions. |

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| *AACSB: Reflective Thinking Blooms: Remember Difficulty: Medium Ross - Chapter 01 #59 Section: 1.1 Topic: Financial management decisions* |

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| 60. | What advantages and disadvantages does the corporate form of organization have compared to sole proprietorships and general partnerships?     The advantages of the corporate form of organization over sole proprietorships and general partnerships are the ease of transferring ownership, the owners' limited liability for business debts, the ability to raise more capital, and the opportunity of an unlimited life of the business. The key disadvantages are double taxation and higher formation costs. |

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| *AACSB: Reflective Thinking Blooms: Analyze Difficulty: Medium Ross - Chapter 01 #60 Section: 1.2 Topic: Forms of business organization* |

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| 61. | If the corporate form of business organization has so many advantages over the sole proprietorship, why is it so common for small businesses to initially be formed as sole proprietorships?     A significant advantage of the sole proprietorship is that it is cheap and easy to form. If the sole proprietor has limited capital to start with, it may not be desirable to spend part of that capital forming a corporation. Also, limited liability for business debts may not be a significant advantage if the proprietor has limited capital, most of which is tied up in the business anyway. Frequently, the owner must also pledge their personal assets to gain external financing, say, from a bank, so the unlimited liability does not offer as much of a benefit as it implies. Finally, for a typical small business, the heart and soul of the business is the person who founded it, so the life of the business may effectively be limited to the life of the founder during its early years. |

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| *AACSB: Reflective Thinking Blooms: Analyze Difficulty: 3 Challenge Ross - Chapter 01 #61 Section: 1.2 Topic: Forms of business organization* |

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| 62. | What should be the primary goal of the financial manager of a corporation? Why?     The appropriate goal is to maximize the current value of the outstanding stock. This goal focuses on enhancing the returns to the current stockholders who are the owners of the firm. Other goals, such as maximizing earnings, focus too narrowly on accounting income and ignore the importance of market values in managerial finance. |

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| *AACSB: Reflective Thinking Blooms: Evaluate Difficulty: Medium Ross - Chapter 01 #62 Section: 1.4 Topic: Goal of financial management* |

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| 63. | One thing lenders sometimes require when loaning money to a small corporation is an assignment of the common stock as collateral on the loan. Then, if the business fails to repay its loan, the ownership of the stock certificates can be transferred directly to the lender. Why might a lender want such an assignment? What advantage of the corporate form of organization comes into play here?     In the event of a loan default, a lender may wish to liquidate the business. Often it is time consuming and difficult to take title of all of the business assets individually. By taking control of the stock, the lender is able to sell the business simply by reselling the stock in the business. This illustrates the ease of transfer of ownership of a corporation. |

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| *AACSB: Reflective Thinking Blooms: Evaluate Difficulty: 3 Challenge Ross - Chapter 01 #63 Section: 1.2 Topic: Forms of business organization* |

Chapter 01 Summary

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| *Category* | *# of Questions* |
| AACSB: Analytical Thinking | 58 |
| AACSB: Reflective Thinking | 5 |
| Accessibility: Keyboard Navigation | 58 |
| Blooms: Analyze | 2 |
| Blooms: Evaluate | 2 |
| Blooms: Remember | 20 |
| Blooms: Understand | 39 |
| Difficulty: 3 Challenge | 2 |
| Difficulty: Easy | 34 |
| Difficulty: Medium | 27 |
| Ross - Chapter 01 | 63 |
| Section: 1.1 | 12 |
| Section: 1.2 | 21 |
| Section: 1.3 | 6 |
| Section: 1.4 | 5 |
| Section: 1.5 | 9 |
| Section: 1.6 | 5 |
| Topic: Agency problems and issues | 7 |
| Topic: Capital structure | 1 |
| Topic: Cash flows | 5 |
| Topic: Ethics, governance, and regulation | 5 |
| Topic: Financial management decisions | 4 |
| Topic: Forms of business organization | 26 |
| Topic: Generally Accepted Accounting Principles (GAAP) | 1 |
| Topic: Goal of financial management | 5 |
| Topic: Introduction to corporate finance | 3 |
| Topic: Management organization and roles | 5 |
| Topic: Net working capital | 1 |
| Topic: Regulation | 2 |
| Topic: The Agency Problem and Control of the Corporation | 2 |
| Topic: The Corporate Firm | 2 |
| Topic: What is Corporate Finance? | 1 |