***Corporate Finance: Core Principles & Apps, 5e* (Ross)**

**Chapter 1 Introduction to Corporate Finance**

1) Which one of these is an intangible asset?

A) Building

B) Machinery

C) Vehicle

D) Loan

E) Trademark

2) Current assets include

A) inventory and cash.

B) cash and buildings.

C) inventory and machinery.

D) equipment and cash.

E) buildings and inventory.

3) Short-term finance

A) ensures sufficient equipment is available to produce the daily amount of product desired.

B) ensures that long-term debt is acquired at the lowest possible cost.

C) ensures that dividends are paid to all stockholders on an annual basis.

D) balances the amount of company debt to the amount of available equity.

E) is concerned with managing net working capital.

4) Which one of the following is a capital budgeting decision?

A) Deciding whether or not to open a new store

B) Determining how much inventory to keep on hand

C) Determining how much debt should be borrowed from a particular lender

D) Deciding if stock shares should be repurchased

E) Determining how much cash to keep on hand

5) The process of planning and managing a firm's long-term investments is referred to as

A) capital budgeting.

B) agency cost analysis.

C) financial depreciation.

D) working capital management.

E) capital structure.

6) Capital structure refers to the

A) determination of the ideal mix of current versus long-term assets.

B) methods by which fixed assets are used to produce a tangible product.

C) mix of current assets and current liabilities.

D) acquisition or disposition of a building or other long-term asset.

E) decisions related to long-term debt and equity financing.

7) Net working capital is best defined as

A) excess cash on hand.

B) a firm's current assets.

C) current assets minus current liabilities.

D) total assets minus total liabilities.

E) cash and near-cash assets.

8) The treasurer and the controller of a corporation generally report to the

A) president.

B) board of directors.

C) chief executive officer.

D) chief financial officer.

E) chairman of the board.

9) 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 chief operations officer reports to the chief executive officer.

C) The controller reports to the president.

D) The treasurer reports to the chief executive officer.

E) The chief operations officer reports to the vice president of production.

10) The key difference between the responsibilities of the controller and those of the treasurer is best defined as the separation of duties between

A) managing assets versus managing debt and equity.

B) processing tax records versus accounting records.

C) national versus international operations.

D) production versus marketing.

E) cash control versus accounting records.

11) Which position is generally directly responsible for financial planning and capital expenditures?

A) Controller

B) Treasurer

C) Director

D) Chairman of the board

E) Chief operations officer

12) Which type of business is the easiest and cheapest to form?

A) Limited partnership

B) Limited liability company

C) General partnership

D) Corporation

E) Sole proprietorship

13) A business entity formed by two or more individuals who each have unlimited liability for business debts is called a

A) corporation.

B) sole proprietorship.

C) general partnership.

D) limited partnership.

E) limited liability company.

14) The division of profits and losses among the members of a partnership is formalized in the

A) indemnity clause.

B) partnership agreement.

C) statement of purpose.

D) indenture contract.

E) group charter.

15) Which form(s) of business is a treated as a distinct legal entity separate from its owners?

A) Limited partnership

B) Sole proprietorship

C) General partnership

D) Corporation

E) Both a limited partnership and a corporation

16) Which one of these is a corporate document that sets forth the intended life of the firm?

A) Federal charter

B) Articles of incorporation

C) Corporate bylaws

D) Indenture contract

E) State charter

17) Which one of the following statements concerning a sole proprietorship is correct?

A) A sole proprietorship is often structured as a limited liability company.

B) The owner of a sole proprietorship may be forced to sell personal assets to pay company debts.

C) The owners of a sole proprietorship share profits as established by the partnership agreement.

D) The profits of a sole proprietorship are taxed twice.

E) A sole proprietorship is difficult to create.

18) Sole proprietorships

A) are expensive to set up.

B) create unlimited liability for their owners.

C) are faced with double taxation of profits.

D) can have multiple owners.

E) provide limited liability to owners.

19) 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) A formal charter is required to form a new proprietorship.

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.

20) Which one of the following best describes the primary advantage of being a limited partner rather than a general partner?

A) No potential financial loss

B) Entitlement to a larger portion of the partnership's income

C) Liability for firm debts limited to the capital invested

D) Greater management responsibility

E) Ability to manage the day-to-day affairs of the business

21) A general partner

A) cannot lose more than the amount of his/her equity investment.

B) has less legal liability than a limited partner.

C) faces double taxation whereas a limited partner does not.

D) has more management responsibility than a limited partner.

E) is the term applied only to corporations that invest in partnerships.

22) A limited partnership generally

A) has less of an ability to raise capital than a proprietorship.

B) has 10 or more limited partners and no general partners.

C) permits limited partners to sell their ownership interest without the partnership terminating.

D) is taxed the same as a corporation.

E) provides for the transfer of a general partner's ownership interest to any outside party.

23) Which one of these is an advantage of a general partnership?

A) Limited life of the firm

B) Personal liability for firm debt

C) Greater ability to raise capital than a sole proprietorship

D) Ease of transferring partnership interest

E) Limited liability

24) In a limited partnership,

A) each limited partner's liability is limited to his net worth.

B) each limited partner's liability is limited to his annual salary.

C) each limited partner's liability is limited to the amount he/she invested.

D) there is no limitation on liability; only a limitation on what the partner can earn.

E) limitations are placed on both the salary and personal liability of each limited partner.

25) Art purchased 2,500 shares of Delta stock. His purchase represents 10 percent ownership in the firm. His shares have increased in value from the $12 a share he originally paid to today's market value of $13 a share. Assume Delta goes bankrupt and owes $450,000 more in debts than the firm can pay after liquidating all of its assets. What is the maximum loss per share Art will incur on this investment?

A) $0 a share

B) $12 a share

C) $12.50 a share, computed as ($12 + $13) / 2

D) $13 a share

E) $18 share, computed as (10% × $450,000) / 2,500 shares

26) Which one of the following statements is correct concerning corporations?

A) The shareholders of a corporation select the top managers of that corporation.

B) A corporation is a distinct legal entity.

C) The stockholders are usually the managers of a corporation.

D) The ability of a corporation to raise capital is quite limited.

E) The income of a corporation is taxed as personal income of the stockholders.

27) Which one of the following statements is correct?

A) All types of business formations have limited lives.

B) Partnerships are the most complicated type of business to form.

C) Sole proprietorships and partnerships are taxed in a similar fashion.

D) General partnerships and corporations provide limited liability for all owners.

E) Both partnerships and corporations incur double taxation.

28) 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.

29) The articles of incorporation

A) establish the rights of the shareholders.

B) are rules that apply only to limited liability companies.

C) address only those issues related to a corporation's managers and directors.

D) establish the compensation to be granted to senior managers.

E) include only the name, purpose, and intended life of the corporation.

30) The owners of a limited liability company 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.

31) Which one of the following business types is best suited to raising large amounts of capital?

A) Sole proprietorship

B) Limited liability company

C) Limited partnership

D) General partnership

E) Corporation

32) Which type of business organization has all the respective rights and privileges of a legal person?

A) Sole proprietorship

B) Corporation

C) General partnership

D) Limited partnership

E) Limited liability company

33) The rules by which corporations govern themselves are called

A) indenture provisions.

B) indemnity provisions.

C) bylaws.

D) charter agreements.

E) articles of incorporation.

34) 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) sole proprietorship.

E) corporation.

35) The issuance of new equity shares is a cash flow from

A) long-term creditors to a firm.

B) a firm to its shareholders.

C) a firm's suppliers to the firm.

D) the financial markets to a firm.

E) any one of a firm's stakeholders to the firm.

36) Dividends are a cash flow from

A) a firm to the financial markets.

B) a shareholder to a firm.

C) the government to a shareholder.

D) the financial markets to a firm.

E) a firm to the government.

37) A store receives cash when a customer

A) buys an item using store credit.

B) exchanges one item for another at the same price.

C) pays their bill from the store.

D) places an item on layaway with no deposit.

E) returns an item purchased with cash.

38) Which one of these statements is correct?

A) Firms prefer to receive cash later rather than sooner.

B) Corporate finance focuses on sales and profits.

C) Value creation depends solely on profits.

D) The amount of April sales must equal the amount of cash received by the firm during April.

E) The cash flows of a firm are generally uncertain.

39) The primary goal of financial management is to

A) maximize current dividends per share of the existing stock.

B) minimize operational costs and maximize firm efficiency.

C) maintain steady growth in both sales and net earnings.

D) maximize the current value per share of the existing stock.

E) avoid financial distress.

40) The goal of financial management focuses on the fact that

A) the company will grow in size.

B) employee salaries should increase over time.

C) the current stockholders are the owners of the corporation.

D) the firm should expand faster than its competitors.

E) the current corporate officers should be highly compensated.

41) The decisions made by financial managers should all be ones that increase the

A) size of the firm.

B) growth rate of the firm.

C) market value of the existing owners' equity.

D) marketability of the managers.

E) financial distress of the firm.

42) Which one of the following actions by a financial manager *least* meets the goal of financial management?

A) Increasing current costs in order to increase the market value of the stockholders' equity

B) Agreeing to expand the company at the expense of stockholders' value

C) Refusing to lower selling prices if doing so will reduce the net profits

D) Agreeing to pay bonuses based on the market value of the company stock

E) Refusing to borrow money when doing so will create losses for the firm

43) Which one of the following is *least* apt to convince managers to work in the best interest of the current stockholders?

A) Receiving a bonus based on company profits

B) Receiving stock options

C) Being threatened with a proxy fight

D) Receiving a bonus based on company size

E) Receiving company shares based on increases in share value

44) Which one of these terms refers to a conflict of interest between the stockholders and managers of a corporation?

A) Stakeholder claim

B) Corporate activism

C) Legal liability

D) Breach of indemnity

E) Agency problem

45) Agency costs refer to

A) corporate income subject to double taxation.

B) the total dividends paid to stockholders over the lifetime of a firm.

C) the costs of any conflicts of interest between stockholders and management.

D) the costs that result from default and bankruptcy of a firm.

E) the total interest paid to creditors over the lifetime of the firm.

46) Who ultimately controls a corporation?

A) Stakeholders

B) Chairman of the board

C) Stockholders

D) Chief executive officer

E) Board of directors

47) A stakeholder is best described as any

A) person or entity owning shares of corporate stock.

B) person or entity having voting rights based on stock ownership.

C) current manager who was involved in a firm's creation.

D) creditor to whom the firm currently owes money.

E) person or entity, other than a stockholder or creditor, who potentially has a claim on a firm's cash.

48) Which form of business structure faces the greatest agency problems?

A) Sole proprietorship

B) General partnership

C) Limited partnership

D) Limited liability company

E) Corporation

49) A proxy fight occurs whenever

A) any board member is up for re-election.

B) a firm files for bankruptcy.

C) a shareholder sells shares in the open market.

D) a group solicits votes to replace the current board of directors.

E) a firm is declared insolvent.

50) Which one of these parties *cannot* be a stakeholder of a firm?

A) Newly hired company employee

B) Government

C) Firm's creditors

D) Business located next door to the firm

E) Firm's customers

51) Which one of the following is *least* apt to encourage managers to act in the best interest of shareholders?

A) Shareholder election of the board of directors, who in turn select managers

B) Threat of a takeover by another firm

C) Linking manager compensation to share value

D) Compensating managers with fixed salaries

E) Granting stock options to key managers

52) Insider trading is

A) illegal.

B) impossible to have in our efficient market.

C) legal.

D) discouraged, but legal.

E) defined as the trading of stock by a corporate director based on publicly available information.

53) Which one of the following is a key requirement of the Sarbanes-Oxley Act?

A) Officers of the corporation must now own at least five percent of the firm's stock.

B) Officers of the corporation must review and sign the annual reports.

C) Annual reports must list the strengths of the internal controls.

D) Firms must "go dark" every 5 years.

E) Monthly financial statements must be provided to all shareholders.

54) The primary purpose of the Sarbanes-Oxley Act of 2002 is to

A) protect investors from corporate abuses.

B) apply restrictions on foreign firms operating in the United States.

C) protect financial managers from investors.

D) decrease audit costs for U.S. firms.

E) reduce corporate revenues.

55) Since the implementation of Sarbanes-Oxley, the cost of corporate audits in the United States

A) has steadily increased.

B) has steadily decreased.

C) has remained about the same.

D) increased substantially, but over time has been decreasing.

E) decreased substantially, but over time has been increasing.

56) The Securities Act of 1933 focuses on

A) all new and outstanding stock transactions.

B) the issuance of new securities.

C) the redemption of outstanding debt.

D) insider trading.

E) Federal Deposit Insurance Corporation (FDIC) insurance.

57) The basic regulatory framework for public trading of securities within the United States is provided by:

A) the Securities Act of 1933 and the Securities Exchange Act of 1934.

B) state governments.

C) the Federal Reserve Bank.

D) the Sarbanes-Oxley Act of 2002.

E) NASDAQ.