Chapter 01

Introduction to Corporate Finance

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
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| 1. | Which one of the following terms is defined as the management of a firm's long-term investments?

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| --- | --- |
| A.  | working capital management |

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| --- | --- |
| B.  | financial allocation |

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| --- | --- |
| C.  | agency cost analysis |

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| --- | --- |
| D.  | capital budgeting |

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| --- | --- |
| E.  | capital structure |

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| 2. | Which one of the following terms is defined as the mixture of a firm's debt and equity financing?

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| --- | --- |
| A.  | working capital management |

|  |  |
| --- | --- |
| B.  | cash management |

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| --- | --- |
| C.  | cost analysis |

|  |  |
| --- | --- |
| D.  | capital budgeting |

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| --- | --- |
| E.  | capital structure |

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| 3. | Which one of the following is defined as a firm's short-term assets and its short-term liabilities?

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| --- | --- |
| A.  | working capital |

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| --- | --- |
| B.  | debt |

|  |  |
| --- | --- |
| C.  | investment capital |

|  |  |
| --- | --- |
| D.  | net capital |

|  |  |
| --- | --- |
| E.  | capital structure |

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| 4. | A business owned by a solitary individual who has unlimited liability for its debt is called a:

|  |  |
| --- | --- |
| A.  | corporation. |

|  |  |
| --- | --- |
| B.  | sole proprietorship. |

|  |  |
| --- | --- |
| C.  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | limited liability company. |

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| 5. | A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a:

|  |  |
| --- | --- |
| A.  | corporation. |

|  |  |
| --- | --- |
| B.  | sole proprietorship. |

|  |  |
| --- | --- |
| C.  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | limited liability company. |

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| 6. | A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a:

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| --- | --- |
| A.  | generally partner. |

|  |  |
| --- | --- |
| B.  | sole proprietor. |

|  |  |
| --- | --- |
| C.  | limited partner. |

|  |  |
| --- | --- |
| D.  | corporate shareholder. |

|  |  |
| --- | --- |
| E.  | zero partner. |

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| 7. | A business created as a distinct legal entity and treated as a legal "person" is called a:

|  |  |
| --- | --- |
| A.  | corporation. |

|  |  |
| --- | --- |
| B.  | sole proprietorship. |

|  |  |
| --- | --- |
| C.  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | unlimited liability company. |

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| 8. | Which one of the following terms is defined as a conflict of interest between the corporate shareholders and the corporate managers?

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| --- | --- |
| A.  | articles of incorporation |

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| --- | --- |
| B.  | corporate breakdown |

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| --- | --- |
| C.  | agency problem |

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| --- | --- |
| D.  | bylaws |

|  |  |
| --- | --- |
| E.  | legal liability |

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| 9. | A stakeholder is:

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| --- | --- |
| A.  | a person who owns shares of stock. |

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| --- | --- |
| B.  | any person who has voting rights based on stock ownership of a corporation. |

|  |  |
| --- | --- |
| C.  | a person who initially founded a firm and currently has management control over that firm. |

|  |  |
| --- | --- |
| D.  | a creditor to whom a firm currently owes money. |

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| E.  | any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm. |

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

|  |  |
| --- | --- |
| A.  | I and IV only |

|  |  |
| --- | --- |
| B.  | II and III only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

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| 11. | Which one of the following functions should be the responsibility of the controller rather than the treasurer?

|  |  |
| --- | --- |
| A.  | daily cash deposit |

|  |  |
| --- | --- |
| B.  | income tax returns |

|  |  |
| --- | --- |
| C.  | equipment purchase analysis |

|  |  |
| --- | --- |
| D.  | customer credit approval |

|  |  |
| --- | --- |
| E.  | payment to a vendor |

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| 12. | The controller of a corporation generally reports directly to the:

|  |  |
| --- | --- |
| A.  | board of directors. |

|  |  |
| --- | --- |
| B.  | chairman of the board. |

|  |  |
| --- | --- |
| C.  | chief executive officer. |

|  |  |
| --- | --- |
| D.  | president. |

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| --- | --- |
| E.  | vice president of finance. |

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| 13. | Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure?

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| A.  | The vice president of finance reports to the chairman of the board. |

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| --- | --- |
| B.  | The chief executive officer reports to president. |

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| --- | --- |
| C.  | The controller reports to the president. |

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| --- | --- |
| D.  | The treasurer reports to the vice president of finance. |

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

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| 14. | Which one of the following is a capital budgeting decision?

|  |  |
| --- | --- |
| A.  | determining how many shares of stock to issue |

|  |  |
| --- | --- |
| B.  | deciding whether or not to purchase a new machine for the production line |

|  |  |
| --- | --- |
| C.  | deciding how to refinance a debt issue that is maturing |

|  |  |
| --- | --- |
| D.  | determining how much inventory to keep on hand |

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| --- | --- |
| E.  | determining how much money should be kept in the checking account |

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| 15. | Which of the following should a financial manager consider when analyzing a capital budgeting project?I. project start up costsII. timing of all projected cash flowsIII. dependability of future cash flowsIV. dollar amount of each projected cash flow

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| --- | --- |
| A.  | I and IV only |

|  |  |
| --- | --- |
| B.  | I, II, and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

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| 16. | Which one of the following is a capital structure decision?

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| --- | --- |
| A.  | determining which one of two projects to accept |

|  |  |
| --- | --- |
| B.  | determining how to allocate investment funds to multiple projects |

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| --- | --- |
| C.  | determining the amount of funds needed to finance customer purchases of a new product |

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| --- | --- |
| D.  | determining how much debt should be assumed to fund a project |

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| --- | --- |
| E.  | determining how much inventory will be needed to support a project |

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| 17. | The decision to issue additional shares of stock is an example of which one of the following?

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| --- | --- |
| A.  | working capital management |

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| --- | --- |
| B.  | net working capital decision |

|  |  |
| --- | --- |
| C.  | capital budgeting |

|  |  |
| --- | --- |
| D.  | controller's duties |

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| --- | --- |
| E.  | capital structure decision |

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| 18. | Which of the following accounts are included in working capital management?I. accounts payableII. accounts receivableIII. fixed assetsIV. inventory

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| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | I and III only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| D.  | I, II, and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

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| 19. | Which one of the following is a working capital management decision?

|  |  |
| --- | --- |
| A.  | determining the amount of equipment needed to complete a job |

|  |  |
| --- | --- |
| B.  | determining whether to pay cash for a purchase or use the credit offered by the supplier |

|  |  |
| --- | --- |
| C.  | determining the amount of long-term debt required to complete a project |

|  |  |
| --- | --- |
| D.  | determining the number of shares of stock to issue to fund an acquisition |

|  |  |
| --- | --- |
| E.  | determining whether or not a project should be accepted |

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| 20. | Which one of the following statements concerning a sole proprietorship is correct?

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| A.  | A sole proprietorship is designed to protect the personal assets of the owner. |

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| --- | --- |
| B.  | The profits of a sole proprietorship are subject to double taxation. |

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| --- | --- |
| C.  | The owner of a sole proprietorship is personally responsible for all of the company's debts. |

|  |  |
| --- | --- |
| D.  | There are very few sole proprietorships remaining in the U.S. today. |

|  |  |
| --- | --- |
| E.  | A sole proprietorship is structured the same as a limited liability company. |

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| 21. | Which one of the following statements concerning a sole proprietorship is correct?

|  |  |
| --- | --- |
| A.  | The life of a sole proprietorship is potentially unlimited. |

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| --- | --- |
| B.  | A sole proprietor can generally raise large sums of capital quite easily. |

|  |  |
| --- | --- |
| C.  | Transferring ownership of a sole proprietorship is easier than transferring ownership of a corporation. |

|  |  |
| --- | --- |
| D.  | A sole proprietorship is taxed the same as a C corporation. |

|  |  |
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| E.  | It is easy to create a sole proprietorship. |

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| 22. | Which of the following individuals have unlimited liability based on their ownership interest?I. general partnerII. sole proprietorIII. stockholderIV. limited partner

|  |  |
| --- | --- |
| A.  | II only |

|  |  |
| --- | --- |
| B.  | I and II only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| D.  | I, II, and III only |

|  |  |
| --- | --- |
| E.  | I, II, and IV only |

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| 23. | Which one of the following best describes the primary advantage of being a limited partner instead of a general partner?

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| --- | --- |
| A.  | tax-free income |

|  |  |
| --- | --- |
| B.  | active participation in the firm's activities |

|  |  |
| --- | --- |
| C.  | no potential financial loss |

|  |  |
| --- | --- |
| D.  | greater control over the business affairs of the partnership |

|  |  |
| --- | --- |
| E.  | maximum loss limited to the capital invested |

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| 24. | A general partner:

|  |  |
| --- | --- |
| A.  | is personally responsible for all the partnership debts. |

|  |  |
| --- | --- |
| B.  | has no say over a firm's daily operations. |

|  |  |
| --- | --- |
| C.  | faces double taxation whereas a limited partner does not. |

|  |  |
| --- | --- |
| D.  | has a maximum loss equal to his or her equity investment. |

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| --- | --- |
| E.  | receives a salary in lieu of a portion of the profits. |

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| 25. | A limited partnership:

|  |  |
| --- | --- |
| A.  | has an unlimited life. |

|  |  |
| --- | --- |
| B.  | can opt to be taxed as a corporation. |

|  |  |
| --- | --- |
| C.  | terminates at the death of any limited partner. |

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| --- | --- |
| D.  | has a greater ability to raise capital than a sole proprietorship. |

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| E.  | consists solely of limited partners. |

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| 26. | Which of the following apply to a partnership that consists solely of general partners?I. double taxation of partnership profitsII. limited partnership lifeIII. active involvement in the firm by all the partnersIV. unlimited personal liability for all partnership debts

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| --- | --- |
| A.  | II only |

|  |  |
| --- | --- |
| B.  | I and II only |

|  |  |
| --- | --- |
| C.  | II and III only |

|  |  |
| --- | --- |
| D.  | I, II, and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Which of the following are advantages of the corporate form of business ownership?I. limited liability for firm debtII. double taxationIII. ability to raise capitalIV. unlimited firm life

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| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | III and IV only |

|  |  |
| --- | --- |
| C.  | I, III, and IV only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

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| 28. | Which one of the following statements is correct?

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| --- | --- |
| A.  | The majority of firms in the U.S. are structured as corporations. |

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| --- | --- |
| B.  | Corporate profits are taxable income to the shareholders when earned. |

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| --- | --- |
| C.  | Corporations can raise large amounts of capital generally easier than partnerships can. |

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| --- | --- |
| D.  | Stockholders face no potential losses related to their corporate investment. |

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| --- | --- |
| E.  | Corporate shareholders elect the corporate president. |

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| 29. | Which one of the following statements is correct?

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| --- | --- |
| A.  | A general partnership is legally the same as a corporation. |

|  |  |
| --- | --- |
| B.  | Both sole proprietorship and partnership income is taxed as individual income. |

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| --- | --- |
| C.  | Partnerships are the most complicated type of business to form. |

|  |  |
| --- | --- |
| D.  | All business organizations have bylaws. |

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| --- | --- |
| E.  | Only firms organized as sole proprietorships have limited lives. |

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| 30. | The articles of incorporation:I. describe the purpose of the firm.II. are amended periodically.III. set forth the number of shares of stock that can be issued.IV. detail the method that will be used to elect corporate directors.

|  |  |
| --- | --- |
| A.  | I and III only |

|  |  |
| --- | --- |
| B.  | I and IV only |

|  |  |
| --- | --- |
| C.  | II and III only |

|  |  |
| --- | --- |
| D.  | II and IV only |

|  |  |
| --- | --- |
| E.  | I, III, and IV only |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | Corporate bylaws:

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| --- | --- |
| A.  | must be amended should a firm decide to increase the number of shares authorized. |

|  |  |
| --- | --- |
| B.  | cannot be amended once adopted. |

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| --- | --- |
| C.  | define the name by which the firm will operate. |

|  |  |
| --- | --- |
| D.  | describe the intended life and purpose of the organization. |

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| --- | --- |
| E.  | determine how a corporation regulates itself. |

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| 32. | Which one of the following characteristics applies to a limited liability company?

|  |  |
| --- | --- |
| A.  | available only to firms having a single owner |

|  |  |
| --- | --- |
| B.  | limited liability for limited partners only |

|  |  |
| --- | --- |
| C.  | taxed similar to a partnership |

|  |  |
| --- | --- |
| D.  | taxed similar to a C corporation |

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| --- | --- |
| E.  | all income generated is totally tax-free |

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| 33. | Which one of the following business types is best suited to raising large amounts of capital?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | limited liability company |

|  |  |
| --- | --- |
| C.  | corporation |

|  |  |
| --- | --- |
| D.  | general partnership |

|  |  |
| --- | --- |
| E.  | limited partnership |

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| 34. | Which type of business organization has all the respective rights and privileges of a legal person?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | general partnership |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| D.  | corporation |

|  |  |
| --- | --- |
| E.  | limited liability company |

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

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | joint stock company |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| D.  | general partnership |

|  |  |
| --- | --- |
| E.  | corporation |

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

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | joint stock company |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| D.  | limited liability company |

|  |  |
| --- | --- |
| E.  | corporation |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | Which one of the following best states the primary goal of financial management?

|  |  |
| --- | --- |
| A.  | maximize current dividends per share |

|  |  |
| --- | --- |
| B.  | maximize the current value per share |

|  |  |
| --- | --- |
| C.  | increase cash flow and avoid financial distress |

|  |  |
| --- | --- |
| D.  | minimize operational costs while maximizing firm efficiency |

|  |  |
| --- | --- |
| E.  | maintain steady growth while increasing current profits |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | Which one of the following best illustrates that the management of a firm is adhering to the goal of financial management?

|  |  |
| --- | --- |
| A.  | increase in the amount of the quarterly dividend |

|  |  |
| --- | --- |
| B.  | decrease in the per unit production costs |

|  |  |
| --- | --- |
| C.  | increase in the number of shares outstanding |

|  |  |
| --- | --- |
| D.  | decrease in the net working capital |

|  |  |
| --- | --- |
| E.  | increase in the market value per share |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | Why should financial managers strive to maximize the current value per share of the existing stock?

|  |  |
| --- | --- |
| A.  | doing so guarantees the company will grow in size at the maximum possible rate |

|  |  |
| --- | --- |
| B.  | doing so increases employee salaries |

|  |  |
| --- | --- |
| C.  | because they have been hired to represent the interests of the current shareholders |

|  |  |
| --- | --- |
| D.  | because this will increase the current dividends per share |

|  |  |
| --- | --- |
| E.  | because managers often receive shares of stock as part of their compensation |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | Decisions made by financial managers should primarily focus on increasing which one of the following?

|  |  |
| --- | --- |
| A.  | size of the firm |

|  |  |
| --- | --- |
| B.  | growth rate of the firm |

|  |  |
| --- | --- |
| C.  | gross profit per unit produced |

|  |  |
| --- | --- |
| D.  | market value per share of outstanding stock |

|  |  |
| --- | --- |
| E.  | total sales |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | The Sarbanes-Oxley Act of 2002 is a governmental response to:

|  |  |
| --- | --- |
| A.  | decreasing corporate profits. |

|  |  |
| --- | --- |
| B.  | the terrorists attacks on 9/11/2001. |

|  |  |
| --- | --- |
| C.  | a weakening economy. |

|  |  |
| --- | --- |
| D.  | deregulation of the stock exchanges. |

|  |  |
| --- | --- |
| E.  | management greed and abuses. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | Which one of the following is an unintended result of the Sarbanes-Oxley Act?

|  |  |
| --- | --- |
| A.  | more detailed and accurate financial reporting |

|  |  |
| --- | --- |
| B.  | increased management awareness of internal controls |

|  |  |
| --- | --- |
| C.  | corporations delisting from major exchanges |

|  |  |
| --- | --- |
| D.  | increased responsibility for corporate officers |

|  |  |
| --- | --- |
| E.  | identification of internal control weaknesses |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | A firm which opts to "go dark" in response to the Sarbanes-Oxley Act:

|  |  |
| --- | --- |
| A.  | must continue to provide audited financial statements to the public. |

|  |  |
| --- | --- |
| B.  | must continue to provide a detailed list of internal control deficiencies on an annual basis. |

|  |  |
| --- | --- |
| C.  | can provide less information to its shareholders than it did prior to "going dark". |

|  |  |
| --- | --- |
| D.  | can continue publicly trading its stock but only on the exchange on which it was previously listed. |

|  |  |
| --- | --- |
| E.  | ceases to exist. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | Which of the following are results related to the enactment of the Sarbanes-Oxley Act of 2002?I. increased foreign stock exchange listings of U.S. stocksII. decreased compliance costsIII. increased privatization of public corporationsIV. increased public disclosure by all corporations

|  |  |
| --- | --- |
| A.  | I and III only |

|  |  |
| --- | --- |
| B.  | II and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, III, and IV only |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | Which one of the following actions by a financial manager is most apt to create an agency problem?

|  |  |
| --- | --- |
| A.  | refusing to borrow money when doing so will create losses for the firm |

|  |  |
| --- | --- |
| B.  | refusing to lower selling prices if doing so will reduce the net profits |

|  |  |
| --- | --- |
| C.  | refusing to expand the company if doing so will lower the value of the equity |

|  |  |
| --- | --- |
| D.  | agreeing to pay bonuses based on the market value of the company stock rather than on the firm's level of sales |

|  |  |
| --- | --- |
| E.  | increasing current profits when doing so lowers the value of the firm's equity |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes.I. compensation based on the value of the stockII. stock option plansIII. threat of a company takeoverIV. threat of a proxy fight

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | III and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | I, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | Which form of business structure is most associated with agency problems?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | general partnership |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| D.  | corporation |

|  |  |
| --- | --- |
| E.  | limited liability company |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | Which one of the following is an agency cost?

|  |  |
| --- | --- |
| A.  | accepting an investment opportunity that will add value to the firm |

|  |  |
| --- | --- |
| B.  | increasing the quarterly dividend |

|  |  |
| --- | --- |
| C.  | investing in a new project that creates firm value |

|  |  |
| --- | --- |
| D.  | hiring outside accountants to audit the company's financial statements |

|  |  |
| --- | --- |
| E.  | closing a division of the firm that is operating at a loss |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | Which one of the following is least likely to be an agency problem?

|  |  |
| --- | --- |
| A.  | increasing the size of a firm |

|  |  |
| --- | --- |
| B.  | concentrating on maximizing current profits |

|  |  |
| --- | --- |
| C.  | closing a division with net losses |

|  |  |
| --- | --- |
| D.  | increasing the market value of the firm's shares |

|  |  |
| --- | --- |
| E.  | obtaining a patent for a new product |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Which one of the following is a means by which shareholders can replace company management?

|  |  |
| --- | --- |
| A.  | stock options |

|  |  |
| --- | --- |
| B.  | promotion |

|  |  |
| --- | --- |
| C.  | Sarbanes-Oxley Act |

|  |  |
| --- | --- |
| D.  | agency play |

|  |  |
| --- | --- |
| E.  | proxy fight |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | Which one of the following grants an individual the right to vote on behalf of a shareholder?

|  |  |
| --- | --- |
| A.  | proxy |

|  |  |
| --- | --- |
| B.  | by-laws |

|  |  |
| --- | --- |
| C.  | indenture agreement |

|  |  |
| --- | --- |
| D.  | stock option |

|  |  |
| --- | --- |
| E.  | stock audit |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | Which one of the following parties has ultimate control of a corporation?

|  |  |
| --- | --- |
| A.  | chairman of the Board |

|  |  |
| --- | --- |
| B.  | board of directors |

|  |  |
| --- | --- |
| C.  | chief executive officer |

|  |  |
| --- | --- |
| D.  | chief operating office |

|  |  |
| --- | --- |
| E.  | shareholders |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | Which of the following parties are considered stakeholders of a firm?I. employeeII. long-term creditorIII. governmentIV. common stockholder

|  |  |
| --- | --- |
| A.  | I only |

|  |  |
| --- | --- |
| B.  | IV only |

|  |  |
| --- | --- |
| C.  | I and III only |

|  |  |
| --- | --- |
| D.  | II and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | Which of the following represent cash outflows from a corporation?I. issuance of securitiesII. payment of dividendsIII. new loan proceedsIV. payment of government taxes

|  |  |
| --- | --- |
| A.  | I and III only |

|  |  |
| --- | --- |
| B.  | II and IV only |

|  |  |
| --- | --- |
| C.  | I and IV only |

|  |  |
| --- | --- |
| D.  | I, II, and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which of the following are cash flows from a corporation into the financial markets?I. repayment of long-term debtII. payment of government taxesIII. payment of loan interestIV. payment of quarterly dividend

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | I and III only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| D.  | I, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, and III only |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. | Which one of the following is a primary market transaction?

|  |  |
| --- | --- |
| A.  | sale of currently outstanding stock by a dealer to an individual investor |

|  |  |
| --- | --- |
| B.  | sale of a new share of stock to an individual investor |

|  |  |
| --- | --- |
| C.  | stock ownership transfer from one shareholder to another shareholder |

|  |  |
| --- | --- |
| D.  | gift of stock from one shareholder to another shareholder |

|  |  |
| --- | --- |
| E.  | gift of stock by a shareholder to a family member |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | Shareholder A sold 500 shares of ABC stock on the New York Stock Exchange. This transaction:

|  |  |
| --- | --- |
| A.  | took place in the primary market. |

|  |  |
| --- | --- |
| B.  | occurred in a dealer market. |

|  |  |
| --- | --- |
| C.  | was facilitated in the secondary market. |

|  |  |
| --- | --- |
| D.  | involved a proxy. |

|  |  |
| --- | --- |
| E.  | was a private placement. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Public offerings of debt and equity must be registered with which one of the following?

|  |  |
| --- | --- |
| A.  | New York Board of Governors |

|  |  |
| --- | --- |
| B.  | Federal Reserve |

|  |  |
| --- | --- |
| C.  | NYSE Registration Office |

|  |  |
| --- | --- |
| D.  | Securities and Exchange Commission |

|  |  |
| --- | --- |
| E.  | Market Dealers Exchange |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | Which one of the following statements is generally correct?

|  |  |
| --- | --- |
| A.  | Private placements must be registered with the SEC. |

|  |  |
| --- | --- |
| B.  | All secondary markets are auction markets. |

|  |  |
| --- | --- |
| C.  | Dealer markets have a physical trading floor. |

|  |  |
| --- | --- |
| D.  | Auction markets match buy and sell orders. |

|  |  |
| --- | --- |
| E.  | Dealers arrange trades but never own the securities traded. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Which one of the following statements concerning stock exchanges is correct?

|  |  |
| --- | --- |
| A.  | NASDAQ is a broker market. |

|  |  |
| --- | --- |
| B.  | The NYSE is a dealer market. |

|  |  |
| --- | --- |
| C.  | The exchange with the strictest listing requirements is NASDAQ. |

|  |  |
| --- | --- |
| D.  | Some large companies are listed on NASDAQ. |

|  |  |
| --- | --- |
| E.  | Most debt securities are traded on the NYSE. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | Shareholder A sold shares of Maplewood Cabinets stock to Shareholder B. The stock is listed on the NYSE. This trade occurred in which one of the following?

|  |  |
| --- | --- |
| A.  | primary, dealer market |

|  |  |
| --- | --- |
| B.  | secondary, dealer market |

|  |  |
| --- | --- |
| C.  | primary, auction market |

|  |  |
| --- | --- |
| D.  | secondary, auction market |

|  |  |
| --- | --- |
| E.  | secondary, OTC market |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | Which one of the following statements is correct concerning the NYSE?

|  |  |
| --- | --- |
| A.  | The publicly traded shares of a NYSE-listed firm must be worth at least $250 million. |

|  |  |
| --- | --- |
| B.  | The NYSE is the largest dealer market for listed securities in the United States. |

|  |  |
| --- | --- |
| C.  | The listing requirements for the NYSE are more stringent than those of NASDAQ. |

|  |  |
| --- | --- |
| D.  | Any corporation desiring to be listed on the NYSE can do so for a fee. |

|  |  |
| --- | --- |
| E.  | The NYSE is an OTC market functioning as both a primary and a secondary market. |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | Which one of the following statements concerning NASDAQ is FALSE?

|  |  |
| --- | --- |
| A.  | It is easier to be listed on NASDAQ than on the NYSE. |

|  |  |
| --- | --- |
| B.  | NASDAQ is an electronic market. |

|  |  |
| --- | --- |
| C.  | NASDAQ is a dealer market. |

|  |  |
| --- | --- |
| D.  | NASDAQ is an OTC market. |

|  |  |
| --- | --- |
| E.  | NASDAQ is an auction market. |

 |

**Essay Questions**

|  |  |
| --- | --- |
| 64. | List and briefly describe the three general areas of responsibility for a financial manager.      |

|  |  |
| --- | --- |
| 65. | Describe the key advantages associated with the corporate form of organization.      |

|  |  |
| --- | --- |
| 66. | Why are so many businesses structured as sole proprietorships when the corporate form of business offers more advantages?      |

|  |  |
| --- | --- |
| 67. | What concerns might a loan officer have when loaning funds to a sole proprietorship that he or she might not have when loaning funds to a corporation?      |

|  |  |
| --- | --- |
| 68. | From a liability point of view, what is the difference between investing in a sole proprietorship and a general partnership?      |

|  |  |
| --- | --- |
| 69. | Give some examples of ways in which manager's goals can differ from those of shareholders.      |

|  |  |
| --- | --- |
| 70. | How do the actual effects of the Sarbanes-Oxley Act of 2002 compare to the initial intent of that Act?      |

|  |  |
| --- | --- |
| 71. | How might agency problems arise in partnerships?      |

|  |  |
| --- | --- |
| 72. | Compare and contrast the NYSE with NSADAQ.      |

Chapter 01 Introduction to Corporate Finance Answer Key

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | Which one of the following terms is defined as the management of a firm's long-term investments?

|  |  |
| --- | --- |
| A.  | working capital management |

|  |  |
| --- | --- |
| B.  | financial allocation |

|  |  |
| --- | --- |
| C.  | agency cost analysis |

|  |  |
| --- | --- |
| **D.**  | capital budgeting |

|  |  |
| --- | --- |
| E.  | capital structure |

Refer to section 1.1 |

|  |
| --- |
| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital budgeting* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. | Which one of the following terms is defined as the mixture of a firm's debt and equity financing?

|  |  |
| --- | --- |
| A.  | working capital management |

|  |  |
| --- | --- |
| B.  | cash management |

|  |  |
| --- | --- |
| C.  | cost analysis |

|  |  |
| --- | --- |
| D.  | capital budgeting |

|  |  |
| --- | --- |
| **E.**  | capital structure |

Refer to section 1.1 |

|  |
| --- |
| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital structure* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | Which one of the following is defined as a firm's short-term assets and its short-term liabilities?

|  |  |
| --- | --- |
| **A.**  | working capital |

|  |  |
| --- | --- |
| B.  | debt |

|  |  |
| --- | --- |
| C.  | investment capital |

|  |  |
| --- | --- |
| D.  | net capital |

|  |  |
| --- | --- |
| E.  | capital structure |

Refer to section 1.1 |

|  |
| --- |
| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Working capital* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. | A business owned by a solitary individual who has unlimited liability for its debt is called a:

|  |  |
| --- | --- |
| A. | corporation. |

|  |  |
| --- | --- |
| **B.** | sole proprietorship. |

|  |  |
| --- | --- |
| C.  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | limited liability company. |

Refer to section 1.2 |

|  |
| --- |
| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Sole proprietorship* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. | A business formed by two or more individuals who each have unlimited liability for all of the firm's business debts is called a:

|  |  |
| --- | --- |
| A.  | corporation. |

|  |  |
| --- | --- |
| B.  | sole proprietorship. |

|  |  |
| --- | --- |
| **C.**  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | limited liability company. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: General partnership* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | A business partner whose potential financial loss in the partnership will not exceed his or her investment in that partnership is called a:

|  |  |
| --- | --- |
| A.  | generally partner. |

|  |  |
| --- | --- |
| B.  | sole proprietor. |

|  |  |
| --- | --- |
| **C.**  | limited partner. |

|  |  |
| --- | --- |
| D.  | corporate shareholder. |

|  |  |
| --- | --- |
| E.  | zero partner. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Limited partner* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | A business created as a distinct legal entity and treated as a legal "person" is called a:

|  |  |
| --- | --- |
| **A.**  | corporation. |

|  |  |
| --- | --- |
| B.  | sole proprietorship. |

|  |  |
| --- | --- |
| C.  | general partnership. |

|  |  |
| --- | --- |
| D.  | limited partnership. |

|  |  |
| --- | --- |
| E.  | unlimited liability company. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | Which one of the following terms is defined as a conflict of interest between the corporate shareholders and the corporate managers?

|  |  |
| --- | --- |
| A.  | articles of incorporation |

|  |  |
| --- | --- |
| B.  | corporate breakdown |

|  |  |
| --- | --- |
| **C.**  | agency problem |

|  |  |
| --- | --- |
| D.  | bylaws |

|  |  |
| --- | --- |
| E.  | legal liability |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency problem* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | A stakeholder is:

|  |  |
| --- | --- |
| A.  | a person who owns shares of stock. |

|  |  |
| --- | --- |
| B.  | any person who has voting rights based on stock ownership of a corporation. |

|  |  |
| --- | --- |
| C.  | a person who initially founded a firm and currently has management control over that firm. |

|  |  |
| --- | --- |
| D.  | a creditor to whom a firm currently owes money. |

|  |  |
| --- | --- |
| **E.**  | any person or entity other than a stockholder or creditor who potentially has a claim on the cash flows of a firm. |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Stakeholder* |

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

|  |  |
| --- | --- |
| A.  | I and IV only |

|  |  |
| --- | --- |
| B.  | II and III only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| **D.**  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | Which one of the following functions should be the responsibility of the controller rather than the treasurer?

|  |  |
| --- | --- |
| A.  | daily cash deposit |

|  |  |
| --- | --- |
| **B.**  | income tax returns |

|  |  |
| --- | --- |
| C.  | equipment purchase analysis |

|  |  |
| --- | --- |
| D.  | customer credit approval |

|  |  |
| --- | --- |
| E.  | payment to a vendor |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | The controller of a corporation generally reports directly to the:

|  |  |
| --- | --- |
| A.  | board of directors. |

|  |  |
| --- | --- |
| B.  | chairman of the board. |

|  |  |
| --- | --- |
| C.  | chief executive officer. |

|  |  |
| --- | --- |
| D.  | president. |

|  |  |
| --- | --- |
| **E.**  | vice president of finance. |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Corporate structure* |

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| 13. | Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure?

|  |  |
| --- | --- |
| A.  | The vice president of finance reports to the chairman of the board. |

|  |  |
| --- | --- |
| B.  | The chief executive officer reports to president. |

|  |  |
| --- | --- |
| C.  | The controller reports to the president. |

|  |  |
| --- | --- |
| **D.**  | The treasurer reports to the vice president of finance. |

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

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Corporate structure* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | Which one of the following is a capital budgeting decision?

|  |  |
| --- | --- |
| A.  | determining how many shares of stock to issue |

|  |  |
| --- | --- |
| **B.**  | deciding whether or not to purchase a new machine for the production line |

|  |  |
| --- | --- |
| C.  | deciding how to refinance a debt issue that is maturing |

|  |  |
| --- | --- |
| D.  | determining how much inventory to keep on hand |

|  |  |
| --- | --- |
| E.  | determining how much money should be kept in the checking account |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital budgeting* |

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| 15. | Which of the following should a financial manager consider when analyzing a capital budgeting project?I. project start up costsII. timing of all projected cash flowsIII. dependability of future cash flowsIV. dollar amount of each projected cash flow

|  |  |
| --- | --- |
| A.  | I and IV only |

|  |  |
| --- | --- |
| B.  | I, II, and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| **E.**  | I, II, III, and IV |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital budgeting* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. | Which one of the following is a capital structure decision?

|  |  |
| --- | --- |
| A.  | determining which one of two projects to accept |

|  |  |
| --- | --- |
| B.  | determining how to allocate investment funds to multiple projects |

|  |  |
| --- | --- |
| C.  | determining the amount of funds needed to finance customer purchases of a new product |

|  |  |
| --- | --- |
| **D.**  | determining how much debt should be assumed to fund a project |

|  |  |
| --- | --- |
| E.  | determining how much inventory will be needed to support a project |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital structure* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. | The decision to issue additional shares of stock is an example of which one of the following?

|  |  |
| --- | --- |
| A.  | working capital management |

|  |  |
| --- | --- |
| B.  | net working capital decision |

|  |  |
| --- | --- |
| C.  | capital budgeting |

|  |  |
| --- | --- |
| D.  | controller's duties |

|  |  |
| --- | --- |
| **E.**  | capital structure decision |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Capital structure* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | Which of the following accounts are included in working capital management?I. accounts payableII. accounts receivableIII. fixed assetsIV. inventory

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | I and III only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| **D.**  | I, II, and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Working capital management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | Which one of the following is a working capital management decision?

|  |  |
| --- | --- |
| A.  | determining the amount of equipment needed to complete a job |

|  |  |
| --- | --- |
| **B.**  | determining whether to pay cash for a purchase or use the credit offered by the supplier |

|  |  |
| --- | --- |
| C.  | determining the amount of long-term debt required to complete a project |

|  |  |
| --- | --- |
| D.  | determining the number of shares of stock to issue to fund an acquisition |

|  |  |
| --- | --- |
| E.  | determining whether or not a project should be accepted |

Refer to section 1.1 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Working capital management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. | Which one of the following statements concerning a sole proprietorship is correct?

|  |  |
| --- | --- |
| A.  | A sole proprietorship is designed to protect the personal assets of the owner. |

|  |  |
| --- | --- |
| B.  | The profits of a sole proprietorship are subject to double taxation. |

|  |  |
| --- | --- |
| **C.**  | The owner of a sole proprietorship is personally responsible for all of the company's debts. |

|  |  |
| --- | --- |
| D.  | There are very few sole proprietorships remaining in the U.S. today. |

|  |  |
| --- | --- |
| E.  | A sole proprietorship is structured the same as a limited liability company. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Sole proprietorship* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Which one of the following statements concerning a sole proprietorship is correct?

|  |  |
| --- | --- |
| A.  | The life of a sole proprietorship is potentially unlimited. |

|  |  |
| --- | --- |
| B.  | A sole proprietor can generally raise large sums of capital quite easily. |

|  |  |
| --- | --- |
| C.  | Transferring ownership of a sole proprietorship is easier than transferring ownership of a corporation. |

|  |  |
| --- | --- |
| D.  | A sole proprietorship is taxed the same as a C corporation. |

|  |  |
| --- | --- |
| **E.**  | It is easy to create a sole proprietorship. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Sole proprietorship* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | Which of the following individuals have unlimited liability based on their ownership interest?I. general partnerII. sole proprietorIII. stockholderIV. limited partner

|  |  |
| --- | --- |
| A.  | II only |

|  |  |
| --- | --- |
| **B.**  | I and II only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| D.  | I, II, and III only |

|  |  |
| --- | --- |
| E.  | I, II, and IV only |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Unlimited liability* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Which one of the following best describes the primary advantage of being a limited partner instead of a general partner?

|  |  |
| --- | --- |
| A.  | tax-free income |

|  |  |
| --- | --- |
| B.  | active participation in the firm's activities |

|  |  |
| --- | --- |
| C.  | no potential financial loss |

|  |  |
| --- | --- |
| D.  | greater control over the business affairs of the partnership |

|  |  |
| --- | --- |
| **E.**  | maximum loss limited to the capital invested |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Limited partner* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | A general partner:

|  |  |
| --- | --- |
| **A.**  | is personally responsible for all the partnership debts. |

|  |  |
| --- | --- |
| B.  | has no say over a firm's daily operations. |

|  |  |
| --- | --- |
| C.  | faces double taxation whereas a limited partner does not. |

|  |  |
| --- | --- |
| D.  | has a maximum loss equal to his or her equity investment. |

|  |  |
| --- | --- |
| E.  | receives a salary in lieu of a portion of the profits. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: General partner* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | A limited partnership:

|  |  |
| --- | --- |
| A.  | has an unlimited life. |

|  |  |
| --- | --- |
| B.  | can opt to be taxed as a corporation. |

|  |  |
| --- | --- |
| C.  | terminates at the death of any limited partner. |

|  |  |
| --- | --- |
| **D.**  | has a greater ability to raise capital than a sole proprietorship. |

|  |  |
| --- | --- |
| E.  | consists solely of limited partners. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Partnership* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Which of the following apply to a partnership that consists solely of general partners?I. double taxation of partnership profitsII. limited partnership lifeIII. active involvement in the firm by all the partnersIV. unlimited personal liability for all partnership debts

|  |  |
| --- | --- |
| A.  | II only |

|  |  |
| --- | --- |
| B.  | I and II only |

|  |  |
| --- | --- |
| C.  | II and III only |

|  |  |
| --- | --- |
| D.  | I, II, and IV only |

|  |  |
| --- | --- |
| **E.**  | II, III, and IV only |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Partnership* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Which of the following are advantages of the corporate form of business ownership?I. limited liability for firm debtII. double taxationIII. ability to raise capitalIV. unlimited firm life

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | III and IV only |

|  |  |
| --- | --- |
| **C.**  | I, III, and IV only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, III, and IV |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Which one of the following statements is correct?

|  |  |
| --- | --- |
| A.  | The majority of firms in the U.S. are structured as corporations. |

|  |  |
| --- | --- |
| B.  | Corporate profits are taxable income to the shareholders when earned. |

|  |  |
| --- | --- |
| **C.**  | Corporations can raise large amounts of capital generally easier than partnerships can. |

|  |  |
| --- | --- |
| D.  | Stockholders face no potential losses related to their corporate investment. |

|  |  |
| --- | --- |
| E.  | Corporate shareholders elect the corporate president. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | Which one of the following statements is correct?

|  |  |
| --- | --- |
| A.  | A general partnership is legally the same as a corporation. |

|  |  |
| --- | --- |
| **B.**  | Both sole proprietorship and partnership income is taxed as individual income. |

|  |  |
| --- | --- |
| C.  | Partnerships are the most complicated type of business to form. |

|  |  |
| --- | --- |
| D.  | All business organizations have bylaws. |

|  |  |
| --- | --- |
| E.  | Only firms organized as sole proprietorships have limited lives. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Business entity* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | The articles of incorporation:I. describe the purpose of the firm.II. are amended periodically.III. set forth the number of shares of stock that can be issued.IV. detail the method that will be used to elect corporate directors.

|  |  |
| --- | --- |
| **A.**  | I and III only |

|  |  |
| --- | --- |
| B.  | I and IV only |

|  |  |
| --- | --- |
| C.  | II and III only |

|  |  |
| --- | --- |
| D.  | II and IV only |

|  |  |
| --- | --- |
| E.  | I, III, and IV only |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Articles of incorporation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | Corporate bylaws:

|  |  |
| --- | --- |
| A.  | must be amended should a firm decide to increase the number of shares authorized. |

|  |  |
| --- | --- |
| B.  | cannot be amended once adopted. |

|  |  |
| --- | --- |
| C.  | define the name by which the firm will operate. |

|  |  |
| --- | --- |
| D.  | describe the intended life and purpose of the organization. |

|  |  |
| --- | --- |
| **E.**  | determine how a corporation regulates itself. |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporate bylaws* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | Which one of the following characteristics applies to a limited liability company?

|  |  |
| --- | --- |
| A.  | available only to firms having a single owner |

|  |  |
| --- | --- |
| B.  | limited liability for limited partners only |

|  |  |
| --- | --- |
| **C.**   | taxed similar to a partnership |

|  |  |
| --- | --- |
| D.  | taxed similar to a C corporation |

|  |  |
| --- | --- |
| E.  | all income generated is totally tax-free |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Limited liability company* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | Which one of the following business types is best suited to raising large amounts of capital?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | limited liability company |

|  |  |
| --- | --- |
| **C.**  | corporation |

|  |  |
| --- | --- |
| D.  | general partnership |

|  |  |
| --- | --- |
| E.  | limited partnership |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | Which type of business organization has all the respective rights and privileges of a legal person?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | general partnership |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| **D.**  | corporation |

|  |  |
| --- | --- |
| E.  | limited liability company |

Refer to section 1.2 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | joint stock company |

|  |  |
| --- | --- |
| **C.**  | limited partnership |

|  |  |
| --- | --- |
| D.  | general partnership |

|  |  |
| --- | --- |
| E.  | corporation |

Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Limited partnership* |

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

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | joint stock company |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| **D.**  | limited liability company |

|  |  |
| --- | --- |
| E.  | corporation |

Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Limited liability company* |

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| 37. | Which one of the following best states the primary goal of financial management?

|  |  |
| --- | --- |
| A.  | maximize current dividends per share |

|  |  |
| --- | --- |
| **B.**  | maximize the current value per share |

|  |  |
| --- | --- |
| C.  | increase cash flow and avoid financial distress |

|  |  |
| --- | --- |
| D.  | minimize operational costs while maximizing firm efficiency |

|  |  |
| --- | --- |
| E.  | maintain steady growth while increasing current profits |

Refer to section 1.3 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-02 The goal of financial management.Section: 1.3Topic: Goal of financial management* |

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| 38. | Which one of the following best illustrates that the management of a firm is adhering to the goal of financial management?

|  |  |
| --- | --- |
| A.  | increase in the amount of the quarterly dividend |

|  |  |
| --- | --- |
| B.  | decrease in the per unit production costs |

|  |  |
| --- | --- |
| C.  | increase in the number of shares outstanding |

|  |  |
| --- | --- |
| D.  | decrease in the net working capital |

|  |  |
| --- | --- |
| **E.**  | increase in the market value per share |

Refer to section 1.3 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 The goal of financial management.Section: 1.3Topic: Goal of financial management* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | Why should financial managers strive to maximize the current value per share of the existing stock?

|  |  |
| --- | --- |
| A.  | doing so guarantees the company will grow in size at the maximum possible rate |

|  |  |
| --- | --- |
| B.  | doing so increases employee salaries |

|  |  |
| --- | --- |
| **C.**  | because they have been hired to represent the interests of the current shareholders |

|  |  |
| --- | --- |
| D.  | because this will increase the current dividends per share |

|  |  |
| --- | --- |
| E.  | because managers often receive shares of stock as part of their compensation |

Refer to section 1.3 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 The goal of financial management.Section: 1.3Topic: Goal of financial management* |

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| 40. | Decisions made by financial managers should primarily focus on increasing which one of the following?

|  |  |
| --- | --- |
| A.  | size of the firm |

|  |  |
| --- | --- |
| B.  | growth rate of the firm |

|  |  |
| --- | --- |
| C.  | gross profit per unit produced |

|  |  |
| --- | --- |
| **D.**  | market value per share of outstanding stock |

|  |  |
| --- | --- |
| E.  | total sales |

Refer to section 1.3 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 The goal of financial management.Section: 1.3Topic: Goal of financial management* |

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| 41. | The Sarbanes-Oxley Act of 2002 is a governmental response to:

|  |  |
| --- | --- |
| A.  | decreasing corporate profits. |

|  |  |
| --- | --- |
| B.  | the terrorists attacks on 9/11/2001. |

|  |  |
| --- | --- |
| C.  | a weakening economy. |

|  |  |
| --- | --- |
| D.  | deregulation of the stock exchanges. |

|  |  |
| --- | --- |
| **E.**  | management greed and abuses. |

Refer to section 1.3 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.3Topic: Sarbox* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | Which one of the following is an unintended result of the Sarbanes-Oxley Act?

|  |  |
| --- | --- |
| A.  | more detailed and accurate financial reporting |

|  |  |
| --- | --- |
| B.  | increased management awareness of internal controls |

|  |  |
| --- | --- |
| **C.**  | corporations delisting from major exchanges |

|  |  |
| --- | --- |
| D.  | increased responsibility for corporate officers |

|  |  |
| --- | --- |
| E.  | identification of internal control weaknesses |

Refer to section 1.3 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.3Topic: Sarbox* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | A firm which opts to "go dark" in response to the Sarbanes-Oxley Act:

|  |  |
| --- | --- |
| A.  | must continue to provide audited financial statements to the public. |

|  |  |
| --- | --- |
| B.  | must continue to provide a detailed list of internal control deficiencies on an annual basis. |

|  |  |
| --- | --- |
| **C.**  | can provide less information to its shareholders than it did prior to "going dark". |

|  |  |
| --- | --- |
| D.  | can continue publicly trading its stock but only on the exchange on which it was previously listed. |

|  |  |
| --- | --- |
| E.  | ceases to exist. |

Refer to section 1.3 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.3Topic: Sarbox* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | Which of the following are results related to the enactment of the Sarbanes-Oxley Act of 2002?I. increased foreign stock exchange listings of U.S. stocksII. decreased compliance costsIII. increased privatization of public corporationsIV. increased public disclosure by all corporations

|  |  |
| --- | --- |
| **A.**  | I and III only |

|  |  |
| --- | --- |
| B.  | II and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | II, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, III, and IV only |

Refer to section 1.3 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.3Topic: Sarbox* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | Which one of the following actions by a financial manager is most apt to create an agency problem?

|  |  |
| --- | --- |
| A.  | refusing to borrow money when doing so will create losses for the firm |

|  |  |
| --- | --- |
| B.  | refusing to lower selling prices if doing so will reduce the net profits |

|  |  |
| --- | --- |
| C.  | refusing to expand the company if doing so will lower the value of the equity |

|  |  |
| --- | --- |
| D.  | agreeing to pay bonuses based on the market value of the company stock rather than on the firm's level of sales |

|  |  |
| --- | --- |
| **E.**  | increasing current profits when doing so lowers the value of the firm's equity |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency problem* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | Which of the following help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes.I. compensation based on the value of the stockII. stock option plansIII. threat of a company takeoverIV. threat of a proxy fight

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | III and IV only |

|  |  |
| --- | --- |
| C.  | I, II, and III only |

|  |  |
| --- | --- |
| D.  | I, III, and IV only |

|  |  |
| --- | --- |
| **E.**  | I, II, III, and IV |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency problem* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | Which form of business structure is most associated with agency problems?

|  |  |
| --- | --- |
| A.  | sole proprietorship |

|  |  |
| --- | --- |
| B.  | general partnership |

|  |  |
| --- | --- |
| C.  | limited partnership |

|  |  |
| --- | --- |
| **D.**  | corporation |

|  |  |
| --- | --- |
| E.  | limited liability company |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency problem* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | Which one of the following is an agency cost?

|  |  |
| --- | --- |
| A.  | accepting an investment opportunity that will add value to the firm |

|  |  |
| --- | --- |
| B.  | increasing the quarterly dividend |

|  |  |
| --- | --- |
| C.  | investing in a new project that creates firm value |

|  |  |
| --- | --- |
| **D.**  | hiring outside accountants to audit the company's financial statements |

|  |  |
| --- | --- |
| E.  | closing a division of the firm that is operating at a loss |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency cost* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | Which one of the following is least likely to be an agency problem?

|  |  |
| --- | --- |
| A.  | increasing the size of a firm |

|  |  |
| --- | --- |
| B.  | concentrating on maximizing current profits |

|  |  |
| --- | --- |
| C.  | closing a division with net losses |

|  |  |
| --- | --- |
| **D.**  | increasing the market value of the firm's shares |

|  |  |
| --- | --- |
| E.  | obtaining a patent for a new product |

Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency cost* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Which one of the following is a means by which shareholders can replace company management?

|  |  |
| --- | --- |
| A.  | stock options |

|  |  |
| --- | --- |
| B.  | promotion |

|  |  |
| --- | --- |
| C.  | Sarbanes-Oxley Act |

|  |  |
| --- | --- |
| D.  | agency play |

|  |  |
| --- | --- |
| **E.**  | proxy fight |

Refer to section 1.4 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Proxy fight* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | Which one of the following grants an individual the right to vote on behalf of a shareholder?

|  |  |
| --- | --- |
| **A.**  | proxy |

|  |  |
| --- | --- |
| B.  | by-laws |

|  |  |
| --- | --- |
| C.  | indenture agreement |

|  |  |
| --- | --- |
| D.  | stock option |

|  |  |
| --- | --- |
| E.  | stock audit |

Refer to section 1.4 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Proxy* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | Which one of the following parties has ultimate control of a corporation?

|  |  |
| --- | --- |
| A.  | chairman of the Board |

|  |  |
| --- | --- |
| B.  | board of directors |

|  |  |
| --- | --- |
| C.  | chief executive officer |

|  |  |
| --- | --- |
| D.  | chief operating office |

|  |  |
| --- | --- |
| **E.**  | shareholders |

Refer to section 1.4 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Corporate responsibility* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | Which of the following parties are considered stakeholders of a firm?I. employeeII. long-term creditorIII. governmentIV. common stockholder

|  |  |
| --- | --- |
| A.  | I only |

|  |  |
| --- | --- |
| B.  | IV only |

|  |  |
| --- | --- |
| **C.**  | I and III only |

|  |  |
| --- | --- |
| D.  | II and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

Refer to section 1.4 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Stakeholder* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | Which of the following represent cash outflows from a corporation?I. issuance of securitiesII. payment of dividendsIII. new loan proceedsIV. payment of government taxes

|  |  |
| --- | --- |
| A.  | I and III only |

|  |  |
| --- | --- |
| **B.**  | II and IV only |

|  |  |
| --- | --- |
| C.  | I and IV only |

|  |  |
| --- | --- |
| D.  | I, II, and IV only |

|  |  |
| --- | --- |
| E.  | II, III, and IV only |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Cash outflows* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which of the following are cash flows from a corporation into the financial markets?I. repayment of long-term debtII. payment of government taxesIII. payment of loan interestIV. payment of quarterly dividend

|  |  |
| --- | --- |
| A.  | I and II only |

|  |  |
| --- | --- |
| B.  | I and III only |

|  |  |
| --- | --- |
| C.  | II and IV only |

|  |  |
| --- | --- |
| **D.**  | I, III, and IV only |

|  |  |
| --- | --- |
| E.  | I, II, and III only |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Cash flows* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. | Which one of the following is a primary market transaction?

|  |  |
| --- | --- |
| A.  | sale of currently outstanding stock by a dealer to an individual investor |

|  |  |
| --- | --- |
| **B.**  | sale of a new share of stock to an individual investor |

|  |  |
| --- | --- |
| C.  | stock ownership transfer from one shareholder to another shareholder |

|  |  |
| --- | --- |
| D.  | gift of stock from one shareholder to another shareholder |

|  |  |
| --- | --- |
| E.  | gift of stock by a shareholder to a family member |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Primary market* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | Shareholder A sold 500 shares of ABC stock on the New York Stock Exchange. This transaction:

|  |  |
| --- | --- |
| A.  | took place in the primary market. |

|  |  |
| --- | --- |
| B.  | occurred in a dealer market. |

|  |  |
| --- | --- |
| **C.**  | was facilitated in the secondary market. |

|  |  |
| --- | --- |
| D.  | involved a proxy. |

|  |  |
| --- | --- |
| E.  | was a private placement. |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Secondary market* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Public offerings of debt and equity must be registered with which one of the following?

|  |  |
| --- | --- |
| A.  | New York Board of Governors |

|  |  |
| --- | --- |
| B.  | Federal Reserve |

|  |  |
| --- | --- |
| C.  | NYSE Registration Office |

|  |  |
| --- | --- |
| **D.**  | Securities and Exchange Commission |

|  |  |
| --- | --- |
| E.  | Market Dealers Exchange |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: SEC* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | Which one of the following statements is generally correct?

|  |  |
| --- | --- |
| A.  | Private placements must be registered with the SEC. |

|  |  |
| --- | --- |
| B.  | All secondary markets are auction markets. |

|  |  |
| --- | --- |
| C.  | Dealer markets have a physical trading floor. |

|  |  |
| --- | --- |
| **D.**  | Auction markets match buy and sell orders. |

|  |  |
| --- | --- |
| E.  | Dealers arrange trades but never own the securities traded. |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Auction and dealer markets* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Which one of the following statements concerning stock exchanges is correct?

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| --- | --- |
| A.  | NASDAQ is a broker market. |

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| B.  | The NYSE is a dealer market. |

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| C.  | The exchange with the strictest listing requirements is NASDAQ. |

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| **D.**  | Some large companies are listed on NASDAQ. |

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| E.  | Most debt securities are traded on the NYSE. |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: NYSE and NASDAQ* |

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| 61. | Shareholder A sold shares of Maplewood Cabinets stock to Shareholder B. The stock is listed on the NYSE. This trade occurred in which one of the following?

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| A.  | primary, dealer market |

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| B.  | secondary, dealer market |

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| C.  | primary, auction market |

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| **D.**  | secondary, auction market |

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| E.  | secondary, OTC market |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Secondary auction market* |

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| 62. | Which one of the following statements is correct concerning the NYSE?

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| A.  | The publicly traded shares of a NYSE-listed firm must be worth at least $250 million. |

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| B.  | The NYSE is the largest dealer market for listed securities in the United States. |

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| **C.**  | The listing requirements for the NYSE are more stringent than those of NASDAQ. |

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| D.  | Any corporation desiring to be listed on the NYSE can do so for a fee. |

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| E.  | The NYSE is an OTC market functioning as both a primary and a secondary market. |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: NYSE* |

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| 63. | Which one of the following statements concerning NASDAQ is FALSE?

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| A.  | It is easier to be listed on NASDAQ than on the NYSE. |

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| B.  | NASDAQ is an electronic market. |

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| C.  | NASDAQ is a dealer market. |

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| D.  | NASDAQ is an OTC market. |

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| **E.**  | NASDAQ is an auction market. |

Refer to section 1.5 |

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| *AACSB: AnalyticBlooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: NASDAQ* |

**Essay Questions**

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| 64. | List and briefly describe the three general areas of responsibility for a financial manager.  The three basic areas are:1. capital budgeting: the identification of investment opportunities that have a positive net value2. capital structure: the mix of long-term debt and equity used to finance a firm's operations3. working capital management: the daily control of a firm's short-term assets and short-term liabilitiesFeedback: Refer to section 1.1 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 The basic types of financial management decisions and the role of the financial manager.Section: 1.1Topic: Financial manager* |

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| 65. | Describe the key advantages associated with the corporate form of organization.  The advantages of the corporate form of organization are the ease of transferring ownership, the owners' limited liability for business debts, the ability to raise large amounts of capital, and the potential for an unlimited life for the organization.Feedback: Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Corporation* |

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| 66. | Why are so many businesses structured as sole proprietorships when the corporate form of business offers more advantages?  A significant advantage of the sole proprietorship is that it is inexpensive 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 most of his or her personal assets tied up in the business already. Finally, for a typical small firm, having an unlimited life for the business has no real advantage since the heart and soul of the business is the person who founded it, thereby effectively limiting the life of the business to that of its founder.Feedback: Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Sole proprietorship* |

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| 67. | What concerns might a loan officer have when loaning funds to a sole proprietorship that he or she might not have when loaning funds to a corporation?  The existence and viability of a sole proprietor is dependent upon one individual. Should that individual die, the entity would cease to exist. Likewise, should the owner lose interest in the business or become ill, the business might also cease to exist. With a corporation, the company ownership could be sold in any one of those situations such that the business entity would continue to exist.Feedback: Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Organizational structure* |

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| 68. | From a liability point of view, what is the difference between investing in a sole proprietorship and a general partnership?  Both a sole proprietor and a general partner have unlimited liability for the firm's debts. However, as a sole proprietor you should be totally aware of all the business dealings of the firm. In a general partnership, you may or may not handle the financial transactions and thus are accepting the responsibility for actions taken not only by yourself, but those of your partners.Feedback: Refer to section 1.2 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.2Topic: Personal liability* |

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| 69. | Give some examples of ways in which manager's goals can differ from those of shareholders.  The primary goal of a financial manager should be to maximize the current value of the outstanding stock. This goal focuses on enhancing the returns to stockholders who are the owners of the firm. However, managers frequently are more concerned with their personal benefits from employment, the prestige of their position, and the perks to which they feel entitled. There are numerous examples, some of which are excessive compensation packages, large corporate offices, excessive staffing, and first-class travel and conference locations, to name a few.Feedback: Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency conflict* |

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| 70. | How do the actual effects of the Sarbanes-Oxley Act of 2002 compare to the initial intent of that Act?  Some of the key requirements of Sarbanes-Oxley are: the prohibition of personal loans from the company to its officers, an annual report by management of the internal control and financial reporting within the firm along with an independent auditor's assessment of that report, a review and sign off by the corporate officers of the annual financial statements, and the responsibility for the accuracy of the financial reports placed directly on senior management of the firm. While firms that have opted to remain publicly-owned are complying with these requirements, they are paying a cost to do so. This cost has caused other firms to "go dark" or to opt for listing on a foreign exchange rather than a U.S. exchange. While some of the results do match the intent of the Act, the costs, "going dark", and foreign listings were most likely not intended by the supporters of the Act.Feedback: Refer to section 1.3 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.3Topic: Sarbox* |

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| 71. | How might agency problems arise in partnerships?  Agency conflicts typically arise when there is a separation between the ownership and the management of a business. In a general partnership, especially if the partnership is small, there is less of a chance of an agency conflict if all the partners are involved with the business on a regular basis. However, in a limited partnership, the opportunity exists for an agency problem to arise between the general and the limited partners.Feedback: Refer to section 1.4 |

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| *AACSB: EthicsBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 The conflicts of interest that can arise between managers and owners.Section: 1.4Topic: Agency conflict* |

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| 72. | Compare and contrast the NYSE with NSADAQ.  The NYSE is an auction market where sell orders are matched with buy orders. The NYSE has a physical trading floor located on Wall Street in New York City. NASDAQ is a dealer market which is solely electronic and therefore has no physical trading floor. Dealers buy and sell for their own inventory. The listing requirements of the NYSE are more stringent than those of NASDAQ and thus the NYSE tends to list larger firms with smaller firms being listed on NASDAQ. Note however, that larger firms can, and do, opt to remain on NASDAQ even though they qualify for NYSE listing.Feedback: Refer to section 1.5 |

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| *AACSB: Reflective ThinkingBlooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 The financial implications of the different forms of business organization.Section: 1.5Topic: Exchanges* |