***Fundamentals of Corporate Finance, 12e* (Ross)**

**Chapter 1 Introduction to Corporate Finance**

1) Which one of the following functions should be the responsibility of the controller rather than the treasurer?

A) Depositing cash receipts

B) Processing cost reports

C) Analyzing equipment purchases

D) Approving credit for a customer

E) Paying a vendor

2) The treasurer 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.

3) Which one of the following correctly defines the upward chain of command in a typical corporate organizational structure?

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

B) The chief executive officer reports to the president.

C) The controller reports to the chief financial officer.

D) The treasurer reports to the president.

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

4) An example of a capital budgeting decision is deciding:

A) how many shares of stock to issue.

B) whether or not to purchase a new machine for the production line.

C) how to refinance a debt issue that is maturing.

D) how much inventory to keep on hand.

E) how much money should be kept in the checking account.

5) When evaluating the timing of a project's projected cash flows, a financial manager is analyzing:

A) the amount of each expected cash flow.

B) only the start-up costs that are expected to require cash resources.

C) only the date of the final cash flow related to the project.

D) the amount by which cash receipts are expected to exceed cash outflows.

E) when each cash flow is expected to occur.

6) Capital structure decisions include determining:

A) which one of two projects to accept.

B) how to allocate investment funds to multiple projects.

C) the amount of funds needed to finance customer purchases of a new product.

D) how much debt should be assumed to fund a project.

E) how much inventory will be needed to support a project.

7) The decision to issue additional shares of stock is an example of:

A) working capital management.

B) a net working capital decision.

C) capital budgeting.

D) a controller's duties.

E) a capital structure decision.

8) Which one of the following questions is a working capital management decision?

A) Should the company issue new shares of stock or borrow money?

B) Should the company update or replace its older equipment?

C) How much inventory should be on hand for immediate sale?

D) Should the company close one of its current stores?

E) How much should the company borrow to buy a new building?

9) Which one of the following is a working capital management decision?

A) What type(s) of equipment is (are) needed to complete a current project?

B) Should the firm pay cash for a purchase or use the credit offered by the supplier?

C) What amount of long-term debt is required to complete a project?

D) How many shares of stock should the firm issue to fund an acquisition?

E) Should a project should be accepted?

10) Working capital management decisions include determining:

A) the minimum level of cash to be kept in a checking account.

B) the best method of producing a product.

C) the number of employees needed to work during a particular shift.

D) when to replace obsolete equipment.

E) if a competitor should be acquired.

11) 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

12) 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

13) A firm's short-term assets and its short-term liabilities are referred to as the firm's:

A) working capital.

B) debt.

C) investment capital.

D) net capital.

E) capital structure.

14) Which one of the following questions is least likely to be addressed by financial managers?

A) How should a product be marketed?

B) Should customers be given 30 or 45 days to pay for their credit purchases?

C) Should the firm borrow more money?

D) Should the firm acquire new equipment?

E) How much cash should the firm keep on hand?

15) A business owned by a solitary individual who has unlimited liability for the firm's debt is called a:

A) corporation.

B) sole proprietorship.

C) general partnership.

D) limited partnership.

E) limited liability company.

16) 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.

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

A) general partner.

B) sole proprietor.

C) limited partner.

D) corporate shareholder.

E) zero partner.

18) A business created as a distinct legal entity and treated as a legal "person" is called a(n):

A) corporation.

B) sole proprietorship.

C) general partnership.

D) limited partnership.

E) unlimited liability company.

19) 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.

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

A) The life of a sole proprietorship is limited.

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) A sole proprietorship is the most regulated form of organization.

21) Which of the following individuals have unlimited liability for a firm's debts based on their ownership interest?

A) Only general partners

B) Only sole proprietors

C) All stockholders

D) Both limited and general partners

E) Both general partners and sole proprietors

22) The primary advantage of being a limited partner is:

A) the receipt of tax-free income.

B) the partner's active participation in the firm's activities.

C) the lack of any potential financial loss.

D) the daily control over the business affairs of the partnership.

E) the partner's maximum loss is limited to their capital investment.

23) A general partner:

A) is personally responsible for all 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.

24) A limited partnership:

A) has an unlimited life.

B) can opt to be taxed as a corporation.

C) terminates at the death of any one limited partner.

D) has at least one partner who has unlimited liability for all of the partnership's debts.

E) consists solely of limited partners.

25) A partnership with four general partners:

A) distributes profits based on percentage of ownership.

B) has an unlimited partnership life.

C) limits the active involvement in the firm to a single partner.

D) limits each partner's personal liability to 25 percent of the partnership's total debt.

E) must distribute 25 percent of the profits to each partner.

26) One disadvantage of the corporate form of business ownership is the:

A) limited liability of its shareholders for the firm's debts.

B) double taxation of distributed profits.

C) firm's greater ability to raise capital than other forms of ownership.

D) firm's potential for an unlimited life.

E) firm's ability to issue additional shares of stock.

27) 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 have an unlimited life.

D) Shareholders are protected from all potential losses.

E) Shareholders directly elect the corporate president.

28) Which one of the following statements is correct?

A) A general partnership is legally the same as a corporation.

B) Income from both sole proprietorships and partnerships that is taxable is treated 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.

29) The articles of incorporation:

A) describe the purpose of the firm and set forth the number of shares of stock that can be issued.

B) are amended periodically especially prior to corporate elections.

C) explain how corporate directors are to be elected and the length of their terms.

D) sets forth the procedures by which a firm regulates itself.

E) include only the corporation's name and intended life.

30) 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.

31) A limited liability company:

A) can only have a single owner.

B) is comprised of limited partners only.

C) is taxed similar to a partnership.

D) is taxed similar to a C corporation.

E) generates totally tax-free income.

32) Which business form is best suited to raising large amounts of capital?

A) Sole proprietorship

B) Limited liability company

C) Corporation

D) General partnership

E) Limited partnership

33) A \_\_\_\_\_\_\_\_ 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

34) 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

35) Sally and Alicia are equal general partners in a business. They are content with their current management and tax situation but are uncomfortable with their unlimited liability. Which form of business entity should they consider as a replacement to their current arrangement assuming they wish to remain the only two owners of the business?

A) Sole proprietorship

B) Joint stock company

C) Limited partnership

D) Limited liability company

E) Corporation

36) The growth of both sole proprietorships and partnerships is frequently limited by the firm's:

A) double taxation.

B) bylaws.

C) inability to raise cash.

D) limited liability.

E) agency problems.

37) Corporate dividends are:

A) tax-free because the income is taxed at the personal level when earned by the firm.

B) tax-free because they are distributions of aftertax income.

C) tax-free since the corporation pays tax on that income when it is earned.

D) taxed at both the corporate and the personal level when the dividends are paid to shareholders.

E) taxable income of the recipient even though that income was previously taxed.

38) Financial managers should primarily focus on the interests of:

A) stakeholders.

B) the vice president of finance.

C) their immediate supervisor.

D) shareholders.

E) the board of directors.

39) 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

40) Which one of the following best illustrates that the management of a firm is adhering to the goal of financial management?

A) An increase in the amount of the quarterly dividend

B) A decrease in the per unit production costs

C) An increase in the number of shares outstanding

D) A decrease in the net working capital

E) An increase in the market value per share

41) Financial managers should strive to maximize the current value per share of the existing stock to:

A) guarantee the company will grow in size at the maximum possible rate.

B) increase employee salaries.

C) best represent the interests of the current shareholders.

D) increase the current dividends per share.

E) provide managers with shares of stock as part of their compensation.

42) Decisions made by financial managers should primarily focus on increasing the:

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.

43) The Sarbanes-Oxley Act of 2002 is a governmental response to:

A) decreasing corporate profits.

B) the terrorist attacks on 9/11/2001.

C) a weakening economy.

D) deregulation of the stock exchanges.

E) management greed and abuses.

44) 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

45) 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.

46) The Sarbanes-Oxley Act of 2002 holds a public company's \_\_\_\_\_\_\_\_ responsible for the accuracy of the company's financial statements.

A) managers

B) internal auditors

C) external legal counsel

D) internal legal counsel

E) Securities and Exchange Commission agent

47) 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's stock rather than on its level of sales

E) Increasing current profits when doing so lowers the value of the company's equity

48) Which one of the following is *least* apt to help convince managers to work in the best interest of the stockholders? Assume there are no golden parachutes.

A) Compensation based on the value of the stock

B) Stock option plans

C) Threat of a company takeover

D) Threat of a proxy fight

E) Increasing managers' base salaries

49) Agency problems are most associated with:

A) sole proprietorships.

B) general partnerships.

C) limited partnerships.

D) corporations.

E) limited liability companies.

50) 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

51) 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

52) 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

53) 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 officer

E) Shareholders

54) Which of the following parties are considered stakeholders of a firm?

A) Employees and the government

B) Long-term creditors

C) Government and common stockholders

D) Common stockholders

E) Long-term creditors and common stockholders

55) Which one of the following represents a cash outflow from a corporation?

A) Issuance of new securities

B) Payment of dividends

C) New loan proceeds

D) Receipt of tax refund

E) Initial sale of common stock

56) Which one of the following is a cash flow from a corporation into the financial markets?

A) Borrowing of long-term debt

B) Payment of government taxes

C) Payment of loan interest

D) Issuance of corporate debt

E) Sale of common stock

57) 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

58) 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.

59) Public offerings of debt and equity must be registered with the:

A) New York Board of Governors.

B) Federal Reserve.

C) NYSE Registration Office.

D) Securities and Exchange Commission.

E) Market Dealers Exchange.

60) 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.

61) 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.

62) 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

63) 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.