

Student name: _____

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

Which one of the following items is an intangible asset?

A building

Accounts receivable

Inventory

A loan from a creditor

A patent

Current assets include

inventory and cash.

cash and buildings.

inventory and machinery.

equipment and cash.

buildings and inventory.

Short-term finance

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

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

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

balances the amount of company debt with the amount of available equity.

is concerned with managing net working capital.

Which one of the following is a capital budgeting decision?

Deciding whether to build a new distribution center

Determining how quickly to pay their accounts payable

Determining whether to use short- or long-term liabilities

Deciding how many shares of stock to repurchase

Determining how much cash to keep on hand

The managers in a firm have decided to move the company's headquarters from a rented space to a new building that the company will purchase. This is an example of

a net working capital decision.

a capital budgeting decision.

a short-term financing decision.

a capital structure decision.

a cash flow decision.

Which one of the following actions involves a net working capital decision?

Deciding whether to build an apartment building

Negotiating whether to lease or buy a new store location

Determining whether to issue debt or equity to pay for the firm's expansion

Deciding how much inventory to keep on hand

Determining whether to replace a fleet of vehicles

The process of planning and managing a firm's long-term investments is referred to as capital budgeting.

agency cost analysis.

financial depreciation.

working capital management.

capital structure.

Capital structure decisions involve

determining the ideal mix of current versus long-term assets.
deciding which fixed assets will be used to produce a tangible product.
determining the ideal mix of current assets and current liabilities.
choices related to acquiring or disposing of long-term assets.
choices related to long-term debt and equity financing.

Net working capital is best defined as
excess cash on hand.
total current assets.
current assets minus current liabilities.
total assets minus total liabilities.
cash and marketable securities.

Both the treasurer and the controller of a corporation generally report to the
president.
board of directors.
chief executive officer.
chief financial officer.
chairperson of the board.

Which one of the following statements is correct concerning the organizational structure of a corporation?

The vice president of finance reports to the chairperson of the board.
The chief operations officer reports to the chief executive officer.
The controller reports to the president.
The treasurer reports to the chief executive officer.
The chief operations officer reports to the vice president of production.

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

managing assets versus managing debt and equity.

processing tax records versus accounting records.

managing national versus international operations.

overseeing production versus marketing activities.

maintaining accounting records versus controlling cash.

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

Controller

Treasurer

Director

Chairperson of the board

Chief operations officer

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

Limited partnership

Limited liability company

General partnership

Corporation

Sole proprietorship

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

corporation.

sole proprietorship.

general partnership.

limited partnership.

limited liability company.

The division of profits and losses among the members of a partnership is formalized in the indemnity clause.

partnership agreement.

statement of purpose.

indenture contract.

group charter.

Which of the following forms of business offer(s) limits on the liabilities of one or more owners?

Corporation

Sole proprietorship

General partnership

Corporation, sole proprietorship, and general partnership

Sole proprietorship and general partnership

Which among the following entities is(are) treated as a distinct legal entity separate from its(their) owner(s)?

Limited partnership

Sole proprietorship

General partnership

Corporation

Limited partnership and corporation

Which one of the following items is a corporate document that sets forth the intended life of the firm?

Federal charter

Articles of incorporation

Corporate bylaws

Indenture contract

State charter

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

A sole proprietorship has an unlimited lifespan.

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

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

If the owner of a sole proprietorship receives profits from the firm, the profits are subject to double taxation.

A sole proprietorship may issue shares of stocks to expand the firm.

Sole proprietorships

are expensive to set up.

create unlimited liability for their owners.

are faced with double taxation of profits.

can have multiple owners.

provide limited liability to owners.

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

The life of the firm is limited to the life span of the owner.

The owner can generally raise large sums of capital quite easily.

A formal charter is required to form a new proprietorship.

The company must pay separate taxes from those paid by the owner.

The legal costs to form a sole proprietorship are quite substantial.

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

No potential financial loss

Entitlement to a larger portion of the partnership's income

Liability for firm debts limited to the capital invested

Greater management responsibility

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

A general partner

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

has less legal liability than a limited partner.

faces double taxation whereas a limited partner does not.

has more management responsibility than a limited partner.

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

A limited partnership generally

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

has multiple limited partners and no general partners.

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

is taxed the same as a corporation.

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

Which one of the following is an advantage of a general partnership, relative to a regular C-corporation?

Unlimited life of the firm

Unlimited personal liability for the firm's debt

Ability to have an unlimited number of owners

Ease of transferring ownership to others

Profits are taxed as individual income only

In a limited partnership, each limited partner's liability is limited to his/her net worth.

his/her annual income from the partnership.

the amount he/she invested in the partnership.

the liabilities that each partner incurred.

his/her percentage of the ownership of the partnership.

An investor purchased 1,000 shares of a company's stock for \$5 per share. Her purchase represents 2 percent ownership of the firm. The shares have increased in value to today's market value of \$25 per share. Assume the company goes bankrupt and owes \$750,000 more in debts than the firm can pay, even after liquidating all of its assets. What is the maximum loss per share the investor will incur on this investment?

\$0 per share

\$5 per share

\$15 per share, computed as $(\$5 + 25) / 2$

\$25 per share

\$15 per share, computed as $(2\% \times \$750,000) / 1,000$ shares

Which one of the following statements is correct concerning corporations?

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

A corporation is a distinct legal entity, separate from its owners.

The stockholders are usually the managers of a corporation.

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

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

Which one of the following statements is correct?

All types of business formations have limited lives.

Partnerships are the most complicated type of business to form.

Sole proprietorships and partnerships are taxed in a similar fashion.

General partnerships and corporations both provide limited liability for all owners.

Both partnerships and corporations incur double taxation.

The articles of incorporation

can be used to remove company management.

are amended annually by the company stockholders.

set forth the number of shares of stock that can be issued.

set forth the rules by which the corporation regulates its existence.

can set forth the conditions under which the firm can avoid double taxation.

The articles of incorporation

establish the rights of the shareholders.

are rules that apply only to limited liability companies.

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

establish the compensation to be granted to senior managers.

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

A benefit for owners of a limited liability company is

being taxed like a corporation.

having liability exposure similar to that of a sole proprietor.

having all business income be taxed only once, as it appears on their personal tax returns.

having liability exposure similar to that of a general partner.

being taxed like a corporation while having liability exposure similar to that of a general partnership.

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

Sole proprietorship

Limited liability company

Limited partnership

General partnership

Corporation

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

Sole proprietorship

Corporation

General partnership

Limited partnership

Limited liability company

The rules by which corporations govern themselves are called

indenture provisions.

indemnity provisions.

bylaws.

charter agreements.

articles of incorporation.

A business entity operated and taxed like a partnership, but with limited liability for the owners, is called a

limited liability company.

general partnership.

limited proprietorship.

sole proprietorship.

corporation.

Issuing new shares of equity results in a cash flow from _____ to _____

long-term lenders; the firm.

the firm; its shareholders.

the firm's suppliers; the firm.

the financial markets; the firm.

the firm; its creditors.

Dividends are a cash flow from

a firm, to the financial markets.

a shareholder, to a firm.

the government, to a shareholder.

the financial markets, to a firm.

a firm, to the government.

A store receives cash when a customer

buys an item using store credit.

exchanges one item for another at the same price.

pays their invoice from the store with cash.

purchases an item using a credit card.

returns an item that was originally purchased with cash.

Which one of the following statements is correct?

Firms prefer to receive cash later rather than sooner.

Corporate finance focuses on sales and profits.

Value creation depends solely on profits.

The amount of a firm's sales in a given month will always equal the amount of cash received by that firm during the month.

The cash flows of a firm are generally uncertain.

According to the textbook, the primary goal of financial management is to

maximize current dividends per share of the existing stock.

minimize operational costs and maximize firm efficiency.

maintain steady growth in both sales and net earnings.

maximize the current value per share of the existing stock.

avoid financial distress.

The goal of financial management focuses on the fact that

the company will grow in size.

employees' salaries should increase over time.

the current stockholders are the owners of the corporation.

the firm should expand faster than its competitors.

the current corporate officers should be highly compensated.

According to the textbook, the decisions made by financial managers should focus on increasing the

size of the firm.

growth rate of the firm.

market value of the existing owners' equity.

marketability of the managers.

market share of the firm's products.

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

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

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

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

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

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

Which one of the following actions is the *least* appropriate way to convince managers to work in the best interest of the current stockholders?

Provide managers with bonuses based on company profits

Provide managers with stock options

Inform them that there is a threat of a proxy fight

Provide managers with bonuses based on company size

Grant company shares to managers based on increases in share value

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

Stakeholder claim

Corporate activism

Legal liability

Breach of indemnity

Agency problem

Agency costs refer to

the amount of corporate income subject to double taxation.

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

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

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

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

Who ultimately controls a corporation?

Stakeholders

Chairperson of the board

Stockholders

Chief executive officer

Board of directors

A stakeholder is best described as any

person or entity owning shares of corporate stock.

person or entity having voting rights based on stock ownership.

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

creditor to whom the firm currently owes money.

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

Which form of business is *least* likely to experience agency problems?

Sole proprietorship

General partnership

Limited partnership

Limited liability company

Corporation

A proxy fight occurs whenever

any board member is up for re-election.

a corporation files for bankruptcy.

a shareholder sells shares in the financial market.

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

a firm incurs agency costs.

Which one of the following parties is generally *not* considered to be a stakeholder of a firm?

A newly hired company employee

The government

The firm's creditors

A business located next door to the firm

The firm's customers

Which one of the following actions is the *least* impactful way to encourage managers to act in the best interest of shareholders?

Enable shareholders to elect the board of directors, who in turn select managers

Inform them that there is a threat of a takeover by another firm

Link manager compensation to share value

Compensate managers with fixed salaries

Grant stock options to key managers

Insider trading is

illegal.

impossible in an efficient market.

defined as the legal trading of stock by a stockholder who is also an employee of the firm.

discouraged, but legal.

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

Which one of the following statements reflects a key requirement of the Sarbanes-Oxley Act?

Officers of the corporation must own a minimum of five percent of the firm's stock.

Officers of the corporation must review and sign the firm's annual reports.

Annual reports must list the strengths of the firm's internal controls.

Firms must "go dark" at least every 5 years.

Monthly financial statements must be provided to all shareholders.

The primary purpose of the Sarbanes-Oxley Act is to

protect investors from corporate abuses.

apply restrictions on foreign firms operating in the United States.

protect financial managers from investors.

decrease audit costs for U.S. firms.

reduce corporate record-keeping requirements.

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

has steadily increased.

has steadily decreased.

has remained about the same.

initially increased substantially, but over time has been decreasing.

initially decreased substantially, but over time has been increasing.

The Securities Act of 1933 focuses on

all new and outstanding stock transactions.

the issuance of new securities.

the redemption of outstanding debt.

insider trading.

the creation of the Federal Deposit Insurance Corporation (FDIC).

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

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

state governments.

the Federal Reserve Bank.

the Sarbanes-Oxley Act of 2002.

Nasdaq.

Answer Key

Test name: Ch1_Corporate Finance: Core Principles and Applications_7e

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