TT TEXTBOOK TESTBANKS

Test Bank for Fundamentals of Corporate Finance 2024 Release 1st Ross

TEST BANK SAMPLE PREVIEW

PUBLISHER
MHHE

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2024

RESOURCE TYPE
Test Bank

ISBN
9781265066833

Test Bank for Fundamentals of Corporate Finance 2024 Release 1st Edition by Ross, Westerfield, Jordan

ISBN: 9781265066833

Answers are located at the end of each chapter.

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

1) The controller, rather than the treasurer, is typically responsible for which one of the following functions?
   A) Depositing cash receipts
   B) Processing cost reports
   C) Analyzing equipment purchases
   D) Approving credit for a customer
   E) Paying a vendor

2) Usually, the financial planning manager of a corporation reports directly to the:
   A) controller.
   B) treasurer.
   C) chief financial officer.
   D) president.
   E) chief executive officer.

3) In a typical corporate organizational structure:
   A) the vice president of finance reports to the chair 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) Which one of the following questions involves a capital budgeting decision?
   A) How many shares of stock should the firm issue?
   B) Should the firm purchase a new machine for the production line?
   C) Should the firm borrow money to acquire new equipment?
   D) How much inventory should the firm 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 analyzes:
   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) Which one of the following questions involves a capital structure decision?
   A) Which one of two project proposals should the firm implement?
   B) How should the firm allocate its limited available funds among acceptable projects?
   C) How much funding should be allocated to financing customer purchases of a new product?
   D) How much debt should the firm incur to fund a project?
   E) How much inventory will be needed to support a project?

7) Determining the number of shares of stock to issue is an example of a __________ decision.
   A) capital rationing
   B) net working capital
   C) capital budgeting
   D) capital allocation
   E) capital structure

8) Which one of the following questions is a working capital management decision?
   A) When should the company issue new shares of stock to the public?
   B) When should the company replace its fleet of delivery vehicles?
   C) When is the right time to open a new store?
   D) Should we offer credit terms to all customers or only certain customers?
   E) From which lender should the firm borrow money to pay for a new building?

9) Which one of the following questions involves a working capital management decision?
   A) What equipment will be required to complete a project?
   B) Should the firm require immediate payment from customers or offer credit terms?
   C) What amount of long-term debt is required to complete a project?
   D) What percentage of the firm's equity should the firm issue to fund an acquisition?
   E) Which one of several acceptable projects should be implemented?

10) Which one of the following questions involves a working capital management decision?
   A) What is the maximum level of cash to be kept in the firm's bank account?
   B) What is the most efficient process for producing a product?
   C) How many hours of overtime should manufacturing employees be allowed to work?
   D) When is the appropriate time to replace the delivery fleet?
   E) Should a newly available parcel of land be acquired?

11) Deciding which long-term investment a firm should make is a __________ decision.
   A) working capital management
   B) capital constraints
   C) cost of capital
   D) capital budgeting
   E) capital structure

12) A firm's mixture of debt and equity financing is the result of its __________ decisions.
   A) working capital management
   B) cash management
   C) cost analysis
   D) capital budgeting
   E) capital structure

13) A firm's _________ balance reflects the firm's mix of short-term assets and short-term liabilities.

A) net working capital
B) net debt
C) investment capital
D) net currency
E) capital structure

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

A) In which region of the country should a new product be launched?
B) Should customers be given 30 or 45 days to pay for their credit purchases?
C) Should the firm pay off its debt early?
D) Should the firm acquire new equipment?
E) How much cash should the firm keep on hand?

15) A firm owned by a single person who has unlimited liability for the firm's debts is called a:

A) corporation.
B) sole proprietorship.
C) general partnership.
D) limited partnership.
E) limited liability company.

16) A firm owned by two or more people who each have unlimited liability for the firm's debts is called a:

A) corporation.
B) sole proprietorship.
C) general partnership.
D) limited partnership.
E) limited liability company.

17) A particular partner in a firm knows that the maximum financial loss he or she could experience is the amount he or she invested in the firm. The partner is called a __________ partner.

A) general
B) sole
C) limited
D) corporate
E) zero

18) A business that is a legal entity separate from the owners, yet is 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) A sole proprietorship:

A) is designed to protect the personal assets of the owner.
B) may earn profits that are subject to double taxation.
C) requires the owner to be personally responsible for 100 percent of the company's debts.
D) is the least represented type of firm in the U.S. today.
E) provides the same benefits to owners that a limited liability company does.

20) A sole proprietorship:

A) has a limited life.
B) can generally raise large sums of capital quite easily.
C) can transfer ownership of the firm more easily than a corporation can.
D) is taxed the same as a C corporation.
E) is the most regulated form of organization.

21) __________ are personally responsible for 100 percent of the firm’s debts.

A) General partners but not sole proprietors
B) Sole proprietors but not general partners
C) All business owners
D) Both limited and general partners
E) Both general partners and sole proprietors

22) Limited partners benefit from which one of the following primary advantages?

A) They have the opportunity to earn tax-free income.
B) Their responsibility for the firm’s debts is prorated based on their percentage of ownership.
C) They do not face any potential financial losses.
D) They have control over the administrative affairs of the partnership.
E) Their maximum loss cannot exceed the amount of their capital investment.

23) A general partner:

A) is personally responsible for 100 percent of the debts of the partnership.
B) is responsible for 80 percent of the firm’s debts if he or she owns 80 percent of the partnership.
C) faces double taxation whereas a limited partner does not.
D) has a maximum loss equal to his or her equity investment in the partnership.
E) receives a salary in lieu of a portion of the partnership’s profits.

24) A limited partnership:

A) has a limited tax liability.
B) can opt to be taxed as a corporation.
C) is the newest form of business organization.
D) must have at least one general partner.
E) consists solely of limited partners.

25) A partnership with four general partners:

A) distributes profits based on each partner’s percentage of ownership.
B) has an unlimited life.
C) must limit 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 partnership’s profits to each partner.

26) Which one of the following statements is a disadvantage of the corporate form of business?

A) Shareholders may experience limited liability.
B) Distributed profits may experience double taxation.
C) Raising capital may be more difficult than for other forms of business.
D) The firm may have unlimited life.
E) The firm may issue additional shares of stock.

27) Which one of the following statements regarding corporations is correct?

A) Most firms in the U.S. are structured as corporations.
B) Undistributed corporate profits are taxable income to the shareholders.
C) Corporations can have an unlimited life.
D) Shareholders are protected from all potential losses.
E) Shareholders directly elect the chief financial officer.

28) Which one of the following statements is correct?

A) A general partnership is a legal person.
B) Taxable income earned by a partnership is treated as individual income by the partners.
C) Partnerships are the most complicated type of business to form.
D) All partnerships are required to have at least one limited partner.
E) Only firms organized as partnerships 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) set 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 have only a single owner.

B) is comprised of limited partners only.

C) is taxed similarly to a partnership.

D) is taxed similarly to a C corporation.

E) generates totally tax-free income.

32) Which form of business would be the best choice if it were necessary to raise 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) Three entrepreneurs, named X, Y, and Z, plan to launch a business together. X will fund the venture but wants to limit her liability to her initial investment. She has no interest in the daily operations. Y will contribute his full efforts on a daily basis but has limited funds to invest in the business. Z will be involved as a consultant and manager and will also contribute funds. X and Y 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 minimize the initial costs of organizing the business. 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) Two entrepreneurs, named X and Y, are equal general partners in a business. They are content with their current management and tax situation but are uncomfortable with the idea of unlimited liability. If they wish to remain as the only two owners of the business, which form of business entity should they consider instead of their current arrangement?

A) Sole proprietorship
B) Joint stock company
C) Limited partnership
D) Limited liability company
E) Corporation

36) The ability of both sole proprietorships and partnerships to grow larger is often hindered by their:

A) exposure to double taxation.
B) bylaws.
C) inability to raise cash.
D) limited liability.
E) agency problems.

37) Corporate dividends represent:

A) tax-free income for the recipient because they are distributions of pretax income.
B) tax-free income for the recipient because they are distributions of aftertax income.
C) pretax income from the corporation which becomes taxable income for the recipient.
D) taxable income for both the corporation and the shareholder, whether or not dividends are paid to shareholders.
E) aftertax income from the corporation which becomes taxable income for the recipient.

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

A) themselves.
B) the vice president of finance.
C) their immediate supervisor.
D) shareholders.
E) the board of directors.

39) Which one of the following statements best reflects the primary goal of financial management?

A) Maximize current dividends per share.
B) Maximize the current value per share.
C) Avoid financial distress.
D) Maximize profit.
E) Maintain steady growth while increasing current profits.

40) Which one of the following outcomes 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 production costs per unit
C) An increase in the number of shares outstanding
D) A decrease in net working capital
E) An increase in the market value per share

41) Why must financial managers strive to maximize the current value per share of the existing stock? To:

A) ensure the company will grow in size at the maximum possible rate.
B) provide the greatest opportunity for employees to earn high salaries.
C) best represent the interests of the current owners of the firm.
D) increase the current dividends per share.
E) create the possibility of rewarding high-performing managers with shares of stock.

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 of 9/11/2001.
C) the harm caused to stock markets by SARS, MERS, COVID-19, and other pandemics.
D) deregulation of the stock exchanges.
E) management greed and abuses.

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

A) Awarding compensation based on the value of the stock
B) Providing managers with stock option plans
C) Receiving a threat of a company takeover
D) Receiving a threat of a proxy fight
E) Increasing managers' base salaries

49) Agency problems are most likely to be 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) The primary goal of the corporation is to:

A) maximize total market share.
B) maximize total profits.
C) maximize the stock price per share of common stock.
D) minimize income tax expense.
E) minimize the number of shares of common stock outstanding.

52) Which one of the following documents grants an individual the right to vote on behalf of a shareholder?

A) Proxy
B) Bylaws
C) Partnership agreement
D) Stock option
E) Restricted stock unit

53) Ultimately, the __________ control(s) the corporation.

A) chair of the board
B) members of the board of directors
C) chief executive officer
D) chief operating officer
E) shareholders

54) Which of the following parties are *not* considered stakeholders of a firm?

A) Employees
B) Government
C) Competitors
D) Customers
E) Contractors

55) Which one of the following actions would cause a cash outflow from a corporation?

A) Issuing new securities
B) Paying dividends
C) Taking out a loan from a bank
D) Receiving a tax refund from the government
E) Assigning common stock to employees

56) Which one of the following actions would result in 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 actions 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 from a corporation to an individual investor
C) Transfer of stock ownership from one shareholder to another shareholder
D) Gift of stock from one shareholder to a previous non-shareholder
E) Repurchase of stock from a shareholder by a corporation

58) An investor sold 1,000 shares of a firm's stock on the New York Stock Exchange. This transaction must have:

A) taken place in the primary market.
B) occurred in a dealer market.
C) occurred in the secondary market.
D) involved a proxy.
E) involved 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) Federal Reserve Board.

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 orders with 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) An investor sold shares of a firm's stock to another investor. The stock is listed on the NYSE. The trade occurred in which one of the following types of markets?

A) Primary, dealer

B) Secondary, dealer

C) Primary, auction

D) Secondary, auction

E) Secondary, OTC

63) Which one of the following statements is correct concerning the NYSE?

A) U.S. firms that wish to issue stock to the public must do so on the NYSE.

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.

64) Which one of the following actions would be most likely to reduce a firm's agency costs?

A) Increase employees' salaries to exceed the salaries paid by competitors
B) Pay all employees based on the amount of revenue generated by the firm
C) Prohibit employees from becoming shareholders of the firm
D) Pay bonuses to employees only if profits increase from one year to the next
E) Reward high performing employees with shares of stock

65) Which of the following actions would be considered an agency problem?

A) An owner of a sole proprietorship takes company office supplies for personal use
B) Both partners in a general partnership close the office early one day to go skiing
C) A manager in a corporation buys shares of the company's stock when the price falls
D) A manager in a corporation makes online personal travel arrangements during work hours
E) A shareholder in a corporation sells shares of the company's stock when the price rises

Answer Key

Test name: Chapter 01

1) B
2) B
3) C
4) B
5) E
6) D
7) E
8) D
9) B
10) A
11) D
12) E
13) A
14) A
15) B
16) C
17) C
18) A
19) C
20) A
21) E
22) E
23) A
24) D
25) A
26) B
27) C
28) B
29) A
30) E
31) C
32) C
33) D
34) C
35) D
36) C
37) E

38) D
39) B
40) E
41) C
42) D
43) E
44) C
45) C
46) A
47) E
48) E
49) D
50) D
51) C
52) A
53) E
54) C
55) B
56) C
57) B
58) C
59) D
60) D
61) D
62) D
63) C
64) E
65) D