Corporate Finance 13th edition Ross Test Bank

SKU: 9781260772388-TEST-BANK

Corporate Finance 13th Edition by Ross CH01

ANSWERS ARE LOCATED IN THE SECOND PART OF THIS DOCUMENT

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

1) Generally, among those who report directly to the _____ are the treasurer and the controller of a corporation.

1) _____

A) board of directors
B) chairperson of the board
C) chief executive officer
D) president
E) chief financial officer

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Management organization and roles
Accessibility : Screen Reader Compatible

2) A typical chain of command in a corporation is described by which one of the following statements?

2) _____

A) The information systems manager reports to the treasurer.
B) The credit manager reports to the treasurer.
C) The controller reports to the chief executive officer.
D) The tax manager reports to the treasurer.
E) The capital expenditures manager reports to the controller.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Management organization and roles
Accessibility : Screen Reader Compatible

3) Answering which one of the following questions involves making a capital budgeting decision?

3) _____

A) How much debt should the firm borrow from a particular lender?
B) Should the firm build a new production facility?
C) Should the firm issue new equity to pay for its growth goals?
D) How much inventory should the firm keep on hand?
E) How much credit should the firm extend to a particular customer?

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Bloom's : Understand
Topic : Capital budgeting
Accessibility : Screen Reader Compatible

4) Which one of the following statements is accurate?

4) _____

A) Net working capital equals current assets plus current liabilities.
B) Current liabilities are debts that must be repaid in 18 months or less.
C) Current assets are assets with short lives, such as accounts receivable.
D) Long-term debt is defined as a residual claim on a firm’s assets.
E) Tangible assets are fixed assets such as patents.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Introduction to corporate finance
Accessibility : Screen Reader Compatible

5) Among the typical responsibilities of the corporate controller is:

5) _____

A) capital expenditures management.
B) cash management.
C) tax reporting.
D) financial planning.
E) credit management.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Management organization and roles
Accessibility : Screen Reader Compatible

6) _____ is typically the responsibility of the corporate treasurer.

6) _____

A) Financial planning
B) Cost accounting
C) Tax reporting
D) Information systems
E) Financial accounting

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Management organization and roles
Accessibility : Screen Reader Compatible

7) A firm's _____ define(s) its capital structure.

7) _____

A) mixture of various types of production equipment
B) investment selections for its excess cash reserves
C) combination of cash and cash equivalents
D) combination of accounts appearing on the left side of its balance sheet
E) proportions of financing from debt and equity

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Capital structure
Accessibility : Screen Reader Compatible

8) The focus of short-term finance is on:

8) _____

A) the timing of cash flows.
B) acquiring and selling fixed assets.
C) financing long-term projects.
D) capital budgeting.
E) issuing additional shares of common stock.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Bloom's : Understand
Topic : Cash management - general
Accessibility : Screen Reader Compatible

9) Net working capital includes:

9) _____

A) copyrights.
B) manufacturing equipment.
C) common stock.
D) long-term debt.
E) inventory.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Bloom's : Understand
Topic : Net working capital
Accessibility : Screen Reader Compatible

10) _____ is defined as planning and managing a firm's long-term assets.

10) _____

A) Working capital management
B) Cash management
C) Cost accounting management
D) Capital budgeting
E) Capital structure management

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Capital budgeting
Accessibility : Screen Reader Compatible

11) An amount the firms owes, which it must repay within twelve months, is called a(n):
11) _____

A) current liability.
B) long-term debt.
C) intangible asset.
D) accounts receivable.
E) current asset.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.1 What is Corporate Finance?
Topic : Balance sheet
Accessibility : Screen Reader Compatible

12) The business entity that is typically the *least* expensive to form is the:
12) _____

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

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

13) A _____ is a business owned by a single individual.

13) _____

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

14) Regarding a sole proprietorship, which one of the following statements is accurate?

14) _____

A) It is more difficult to form than other forms of business.
B) Its business profits are taxed twice at the federal level.
C) Its business profits are taxed separately from the personal income of the owner.
D) The owner may be forced to sell his or her personal assets to pay the company's debts.
E) It has an unlimited life span.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

15) Regarding a sole proprietorship, which one of the following statements is accurate?
15) _____

A) The ability to raise capital is limited by the owner's personal wealth.
B) It pays taxes at the corporate tax rate.
C) Ownership of the firm is easy to transfer to another individual.
D) It must pay income taxes separately from the taxes paid by the owner.
E) The legal costs to form it are usually substantial.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

16) The primary advantage of being a limited partner rather than a general partner is:
16) _____

A) being entitled to a larger portion of the partnership's income.
B) having responsibility for day-to-day management of the business.
C) earning profits that are free from income taxation.
D) the ability to have overall control of the partnership.
E) one's personal financial liability is limited to the amount of capital invested.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

17) A general partner:

17) _____

A) has less legal liability than a limited partner.
B) can end the partnership by withdrawing.
C) faces double taxation of profits whereas a limited partner does not.
D) cannot lose more than the amount of his or her equity investment.
E) is the term applied only to corporations that invest in partnerships.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

18) A partnership:

18) _____

A) is taxed in the same fashion that a corporation is taxed.
B) terminates upon the death of any limited partner.
C) creates for all general partners an unlimited liability for the partnership's debts.
D) has the same ability as a corporation to raise capital.
E) allows for easy transfer of ownership from one general partner to another.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

19) One advantage of a partnership is the:

19) _____

A) personal liability for all of the firm's debts.
B) limited life of the entity.
C) limited liability protection for all of the partners.
D) relatively low cost of formation.
E) ease of transferring full ownership to others.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

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

20) _____

A) limited liability protection provided for all owners.
B) firm's ability to raise cash.
C) unlimited life of the firm.
D) difficulties encountered when changing ownership.
E) double taxation of business profits.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

21) Which one of the following statements is correct?

21) _____

A) Both partnerships and corporations are subject to double taxation.
B) Sole proprietorships and partnerships are taxed in a similar fashion.
C) Partnerships are the most complicated type of business to form.
D) Both partnerships and corporations have limited liability for all owners.
E) All types of business formations have limited lives.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

22) The articles of incorporation:

22) _____

A) can be used to remove the firm's management.
B) are amended annually by the firm's stockholders.
C) set forth the rights granted to shareholders.
D) set forth the rules by which the corporation regulates its existence.
E) can set forth the conditions under which the firm can avoid double taxation.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

23) Corporate bylaws:

23) _____

A) establish the name of the corporation.
B) establish the rights granted to its shareholders.
C) set forth the purpose of the firm.
D) establish the rules by which the corporation regulates its existence.
E) set forth the number of members of the initial board of directors.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

24) Regarding corporations, which one of the following statements is accurate?

24) _____

A) After a predetermined number of years, ownership can no longer be transferred.
B) The ability to raise capital is limited by the personal wealth of the owners.
C) Primary shareholders have unlimited liability for corporate debts.
D) The entity can outlive all of its initial owners.
E) When the last original owner dies or withdraws, the entity is terminated.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

25) If a business is formed as a corporation, ownership of the business:

25) _____

A) must be granted with equal rights assigned to each and every shareholder.
B) can be transferred an unlimited number of times.
C) can only be transferred with the approval of the board of directors.
D) is controlled by the corporate officers.
E) must be held by non-management owners.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

26) The owners of a limited liability company typically would prefer to:

26) _____

A) be taxed like a corporation.
B) have liability exposure similar to that of a sole proprietor.
C) be taxed personally on all business income.
D) have liability exposure similar to that of a general partner.
E) be taxed like a corporation, and have liability like a partnership.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

27) In a general partnership, the general partners have _____ liability for the firm's debts and have _____ control over day-to-day operations.

27) _____

A) limited; no
B) unlimited; total
C) limited; total
D) unlimited; no
E) unlimited; limited

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

28) Which one of the following business types is best for raising large amounts of capital?

28) _____

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

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

29) Which type of business organization has the same rights and privileges accorded to a legal person?

29) _____

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

30) A _____ is a business formed by two or more individuals who each have unlimited personal liability for all of the firm's debts.

30) _____

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

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

31) The _____ describes the fraction of the work and cash to be contributed to a partnership by each member of that partnership.

31) _____

A) indemnity clause
B) indenture contract
C) statement of purpose
D) partnership agreement
E) group charter

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

32) A(n) _____ is a business created as a distinct legal entity, separate from its owners.

32) _____

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

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

33) In a limited partnership, each limited partner's liability for the partnership's debts is:

33) _____

A) limited to his or her personal net worth.
B) limited to the amount he or she invested into the partnership.
C) limited to his or her total earnings received from the partnership.
D) unlimited.
E) limited to the total amount invested by all partners.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

34) A _____ provides each owner with limited liability, and is operated and taxed like a partnership.

34) _____

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

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

35) The profits earned by a partnership are:

35) _____

A) fully distributed as taxable income to the partners.
B) distributed to general partners after interest is paid to limited partners.
C) distributed to the partners after the partnership pays its income taxes.
D) generally reinvested in the firm to fund future growth, rather than being distributed to owners.
E) generally held by the partnership for several years before being distributed as dividend payments.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Accessibility : Screen Reader Compatible

36) Financial managers primarily create firm value by:

36) _____

A) maximizing current dividends.
B) investing in assets that generate cash in excess of their cost.
C) lowering the earnings per share.
D) increasing the firm’s market share.
E) maximizing current sales.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

37) Accounting profits and cash flows are generally:

37) _____

A) equal because they reflect current laws and accounting standards.
B) equal because accounting profits reflect the timing of cash flows.
C) unequal because of how income is recognized according to GAAP.
D) unequal because cash inflows must occur before revenue recognition.
E) equal because of the requirements of GAAP.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

38) Which one of thefollowing transactions will result in a cash outflow from the corporation?

38) _____

A) Selling an asset
B) Paying income taxes
C) Issuing common stock
D) Borrowing from a lender
E) Retaining profit earned by the firm

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

39) A firm creates value by:

39) _____

A) having a greater cash inflow from its stockholders than its outflow to them.
B) paying more cash to its creditors and stockholders than the amount it received from them.
C) borrowing long-term debt.
D) generating sales whether or not payment is received for all of those sales.
E) purchasing assets that create cash inflows equal to the cost of those assets.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

40) If a firm is profitable, it follows that:

40) _____

A) its cash inflows exceed its cash outflows.
B) its sales exceed its costs.
C) its cash flows are known with certainty.
D) it has sufficient cash to pay its bills in a timely manner.
E) the timing of its cash flows is irrelevant.

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Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

41) Which one of the following statements is accurate?

41) _____

A) Individuals generally prefer later cash flows rather than current cash flows.
B) The value of an investment depends on the size, timing, and risk of the investment's cash flows.
C) When selecting one of two projects, managers should select the project with the higher total expected cash flow.
D) Most investors prefer greater risk rather than less risk.
E) Accountants record sales and expenses after the related cash flows occur.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

42) A firm is considering a new project. Analysts at the firm would be justified in having the greatest level of certainty in the:

42) _____

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A) amount of the project's cash inflow in Year 3.
B) timing of the last cash inflow from the project.
C) project's initial cost.
D) risk of a pessimistic scenario occurring.
E) amount of the cash inflow from the project in Year 1.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.3 The Importance of Cash Flows
Topic : Cash flows
Accessibility : Screen Reader Compatible

43) Financial managers should primarily strive to:

43) _____

A) minimize costs while increasing current dividends.
B) maximize the current profits of the firm.
C) maximize the current value per share of existing stock.
D) maximize current dividends even if doing so adds financial distress costs to the firm.
E) maximize current market share in every market in which the firm participates.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

44) Financial managers should make decisions in such a way as to increase the:

44) _____

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A) size of the firm.
B) growth rate of the firm.
C) marketability of the managers.
D) market value of the existing owners' equity.
E) firm's current sales.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

45) Which one of the following actions by a financial manager creates an agency problem?

45) _____

A) Borrowing money, when doing so creates value for the firm
B) Lowering selling prices, which will result in increased firm value
C) Agreeing to expand the company at the expense of stockholders' value
D) Agreeing to pay management bonuses based on the market value of the firm's stock
E) Refusing to spend current cash on an unprofitable project

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

46) The primary goal of financial management is to:

46) _____

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A) maximize current dividends per share of the existing stock.
B) maximize the current value per share of the existing stock.
C) avoid financial distress.
D) minimize operational costs and maximize firm efficiency.
E) maintain steady growth in both sales and net earnings.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

47) Of the following choices, _____ is the best way to increase current shareholder value.

47) _____

A) maximizing the firm's amount of available cash
B) increasing the current value of the overall firm
C) postponing all new projects
D) minimizing the overall size of the firm
E) decreasing the number of employees

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

48) A financial manager should make decisions based on:

48) _____

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A) the effects those decisions will have on current profits.
B) the best interests of the manager and his or her peers.
C) the welfare of the current shareholders.
D) minimizing the firm's tax liability.
E) their personal goals and ambitions.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
Accessibility : Screen Reader Compatible

49) A(n) _____ is defined as a conflict of interest between the stockholders and managers of a firm.

49) _____

A) stockholders' liability
B) corporate breakdown
C) agency problem
D) corporate activist
E) legal liability

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

50) Of the following choices, _____ is most likely to create an agency problem.

50) _____

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A) increasing the dividend payments to shareholders
B) paying off debt in a timely manner
C) increasing the sales of a profitable division
D) abandoning a profitable project because it involves some risk
E) selling an unprofitable division of the firm

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

51) Of the following choices, _____ is *least* likely to convince managers to work in the best interest of the stockholders.

51) _____

A) being threatened with a takeover of the firm by unsatisfied stockholders
B) implementing a stock option plan
C) raising managers' salaries based on their length of service
D) tying management compensation to the market value of the firm's stock
E) receiving a threat of a proxy fight

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

52) Which form of business structure typically has the greatest potential for agency problems?

52) _____

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

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

53) A proxy fight occurs when:

53) _____

A) the board of directors disagree on the members of the management team.
B) a group solicits voting rights to replace the board of directors.
C) a competitor offers to sell its ownership interest in the firm.
D) the firm files for bankruptcy.
E) the firm is declared insolvent.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

54) Ultimately, the _____ control(s) the corporation.

54) _____

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A) board of directors
B) stockholders
C) president
D) chief executive officer
E) chairperson of the board

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

55) Members of the board of directors are selected by:

55) _____

A) shareholder voting.
B) company management.
C) the firm's chief executive officer.
D) the largest five shareholders.
E) the firm's managers and employees.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Topic : Management organization and roles
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Accessibility : Screen Reader Compatible

56) What is the main reason that corporations grant stock options to managers? To:

56) _____

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A) reduce agency costs.
B) increase current profits.
C) replace salary increases.
D) reward long-term employment.
E) replace promotions.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

57) Of the following choices, which one best fits the description of an agency cost?

57) _____

A) The costs of increasing the dividend payment per share
B) The benefits received from reducing production costs per unit
C) The payment of corporate income taxes
D) The payment required for an outside audit of the firm
E) The payment of interest on a firm's debts

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.5 The Agency Problem and Control of the Corporation
Topic : Agency costs and problems
Accessibility : Screen Reader Compatible

58) Which one of the following parties is considered a stakeholder of a firm?

58) _____

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A) Customer
B) Short-term creditor
C) Long-term creditor
D) Preferred stockholder
E) Common stockholder

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Topic : Introduction to corporate finance
Section : 1.5 The Agency Problem and Control of the Corporation
Accessibility : Screen Reader Compatible

59) A stakeholder is any person or entity:

59) _____

A) owning shares of stock of a corporation.
B) owning bonds or other long-term debt issued by a corporation.
C) that initially started a firm and currently has management control over that firm.
D) to whom the firm currently owes money.
E) other than a stockholder or creditor who potentially has a financial interest in a firm.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Topic : Introduction to corporate finance
Section : 1.5 The Agency Problem and Control of the Corporation
Accessibility : Screen Reader Compatible

60) One intent of the Sarbanes-Oxley Act of 2002 is to:

60) _____

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A) prevent minority investors from making demands on corporations.
B) protect corporate directors from frivolous lawsuits.
C) guarantee the repayment of all future personal loans to corporate officers and directors.
D) protect investors from corporate abuses.
E) require all public corporations to "go dark" within the next twenty years.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

61) The Sarbanes-Oxley Act requires public corporations to:

61) _____

A) assess the company's internal control structure at least quarterly.
B) distribute at least 90 percent of their profits as dividends on an annual basis.
C) list any deficiencies in internal controls.
D) file annual audit reports if the firm has "gone dark."
E) disclose all personal loans to corporate officers or directors made after 2002.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

62) Insider trading is:

62) _____

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A) prohibited by the Securities Act of 1933.
B) prohibited by the Securities Exchange Act of 1934.
C) impossible in today's efficient markets.
D) highly discouraged, but still legal.
E) prohibited by the Sarbanes-Oxley Act of 2002.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Difficulty : Basic
Bloom's : Understand
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

63) The _____ established the basic regulatory framework for the public trading of securities in the United States.

63) _____

A) New York Stock Exchange, when it was founded,
B) Securities Exchange Act of 1934
C) Federal Reserve Bank, when it was first authorized by Congress,
D) Securities Act of 1933 and the Securities Exchange Act of 1934
E) Sarbanes-Oxley Act of 2002

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

64) The Securities Act of 1933 focuses on:

64) _____

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A) all stock transactions.
B) the sales of existing securities.
C) the issuance of new securities.
D) insider trading.
E) Federal Deposit Insurance Corporation (FDIC) insurance.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

65) The intent of the registration statement required for all new securities by the Securities Act of 1933 is to:

65) _____

A) provide a governmental evaluation of the risks associated with those new securities.
B) set the price at which the securities will be offered.
C) guarantee the profitability of the new securities.
D) prevent any insider trading.
E) provide all necessary information to allow a potential investor to make an informed decision.

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

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66) Which one of the following results have been reported as a consequence of a corporation "going dark?"

66) _____

A) Increased market liquidity and lower costs
B) Lower audit costs and lower interest rates on bank loans
C) Increased access to capital and lower costs associated with that capital
D) Increased audit costs and stock price increases
E) Limited access to capital markets and stock price declines

Question Details
AACSB : Reflective Thinking
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Basic
Section : 1.6 Regulation
Topic : Ethics, governance, and regulation
Accessibility : Screen Reader Compatible

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

67) List and briefly describe the three basic areas addressed by a financial manager.

Question Details
Accessibility : Keyboard Navigation
Section : 1.1 What is Corporate Finance?
AACSB : Knowledge Application
Bloom's : Apply
Difficulty : Intermediate
Topic : Financial management decisions
Accessibility : Screen Reader Compatible

68) What advantages and disadvantages does the corporate form of organization have compared to sole proprietorships and general partnerships?

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Question Details
Accessibility : Keyboard Navigation
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
AACSB : Knowledge Application
Bloom's : Apply
Difficulty : Intermediate
Accessibility : Screen Reader Compatible

69) Why might a professional group select the LLC form of business over a general partnership or a corporate structure?

Question Details
Accessibility : Keyboard Navigation
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
AACSB : Knowledge Application
Bloom's : Apply
Difficulty : Intermediate
Accessibility : Screen Reader Compatible

70) Why might a highly successful sole proprietor change the structure of his or her firm to the corporate form of ownership if that change results in the sharing of profits with other investors?

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Question Details
Accessibility : Keyboard Navigation
Section : 1.2 The Corporate Firm
Topic : Forms of business organization
Difficulty : Intermediate
AACSB : Analytical Thinking
Bloom's : Analyze
Accessibility : Screen Reader Compatible

71) What should be the primary goal of the financial manager of a corporation? Explain why this is appropriate.

Question Details
Accessibility : Keyboard Navigation
Section : 1.4 The Goal of Financial Management
Topic : Goal of financial management
AACSB : Knowledge Application
Bloom's : Apply
Difficulty : Intermediate
Accessibility : Screen Reader Compatible

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Corporate Finance 13th Edition by Ross CH01

Answer Key

Test name: CH01

1) E
2) B
3) B
4) C
5) C
6) A
7) E
8) A
9) E
10) D
11) A
12) E
13) B
14) D
15) A
16) E
17) B
18) C
19) D
20) E
21) B
22) C
23) D
24) D
25) B
26) C

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27) B
28) C
29) D
30) C
31) D
32) A
33) B
34) A
35) A
36) B
37) C
38) B
39) B
40) B
41) B
42) C
43) C
44) D
45) C
46) B
47) B
48) C
49) C
50) D
51) C
52) D
53) B
54) B
55) A
56) A

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57) D
58) A
59) E
60) D
61) C
62) B
63) D
64) C
65) E
66) E
67) The three areas are:
a.Capital budgeting: The identification and management of investment opportunities that are worth more to the firm than they cost to acquire.
b.Capital structure: The determination of the optimal mixture of current and long-term debt and equity used to finance a firm's operations.
c.Working capital management: The daily control over the firm's short-term assets and liabilities.

68) The advantages of the corporate form of organization over sole proprietorships and general partnerships are the ease of transferring ownership, the owners' limited liability for business debts, the ability to raise more capital, and the opportunity of an unlimited life for the business. The key disadvantages are double taxation and higher formation costs.

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69) A limited liability company (LLC) limits the liability of each partner for the debts of the partnership to the amount that partner invested in the firm. Under a general partnership, each partner is fully liable for all of the partnership's debts. An LLC avoids the double taxation of profits since the profits are distributed to partners and taxed as personal income. Thus, an LLC is taxed like a partnership while offering the limited liability to owners like a corporation.

70) A sole proprietorship has a limited life, limited access to additional capital, and unlimited liability for the owner. By switching to the corporate form, the sole proprietor can obtain additional capital while reducing his or her potential liability to the amount he or she invested in the firm. Also, the sole proprietor can sell a portion of the business enabling him or her to diversify their holdings while still maintaining majority control if desired. The primary downside of the change is the incurrence of double taxation.

71) The appropriate goal is to maximize the current value of the outstanding stock. This goal focuses on enhancing the returns to the current stockholders who are the owners of the firm. Other goals, such as maximizing sales or earnings, focus too narrowly on accounting profits and ignore the importance of market values in managerial finance.

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