

**TEST BANK for Financial Management: Theory &  
Practice 16th Edition Eugene F. Brigham & Michael  
C. Ehrhardt. Complete A+**

Note that there is an overlap between the T/F and multiple-choice questions, as some of the T/F statements are used in multiple-choice questions.

**Multiple Choice: True/False**

1. In most corporations, the CFO ranks under the CEO.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** EASY  
**REFERENCES:** 1-1 What Is Finance?  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**PREFACE NAME:** T/F  
**LEARNING OBJECTIVES:** FOFM.BRIG.17.01.01 - What Is Finance?  
**NATIONAL STANDARDS:** United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
**STATE STANDARDS:** United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
**LOCAL STANDARDS:** United States - OH - Default City - Students will understand and be - Students will understand and be able to articulate the goals of the firm, the role of the finance function in the enterprise's organization, and as an analyst using public information.  
**TOPICS:** Role of finance  
**KEYWORDS:** Bloom's Knowledge  
**DATE CREATED:** 9/21/2017 3:15 PM  
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2. The Chairman of the Board must also be the CEO.

- a. True
- b. False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** EASY  
**REFERENCES:** 1-1 What Is Finance?  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** FOFM.BRIG.17.01.01 - What Is Finance?  
**NATIONAL STANDARDS:** United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
**STATE STANDARDS:** United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
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*TOPICS:* Role of finance  
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3. The board of directors is the highest ranking body in a corporation, and the chairman of the board is the highest ranking individual. The CEO generally works under the board and its chairman, and the board generally has the authority to remove the CEO under certain conditions. The CEO, however, cannot remove the board, but he or she can endeavor to have the board voted out and a new board voted in should a conflict arise. It is possible for a person to simultaneously serve as CEO and chairman of the board, though many corporate control experts believe it is bad to vest both offices in the same person.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-1 What Is Finance?  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.01 - What Is Finance?  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
*STATE STANDARDS:* United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
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4. Partnerships and proprietorships generally have a tax advantage over corporations.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization

*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
*STATE STANDARDS:* United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
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5. A disadvantage of the corporate form of organization is that corporate stockholders are more exposed to personal liabilities in the event of bankruptcy than are investors in a typical partnership.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
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*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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6. An advantage of the corporate form of organization is that corporations are generally less highly regulated than proprietorships and partnerships.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False

*HAS VARIABLES:* False  
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7. Some partners in a partnership may have different rights, privileges, and responsibilities than other partners.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
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8. One advantage of the corporate form of organization is that it avoids double taxation.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization

*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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9. It is generally harder to transfer one's ownership interest in a partnership than in a corporation.  
a. True  
b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
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10. One danger of starting a proprietorship is that you may be exposed to personal liability if the business  
goes bankrupt. This problem would be avoided if you formed a corporation to operate the business.  
a. True  
b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY

*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
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11. If a corporation elects to be taxed as an S corporation, then it can avoid the corporate tax. However, its stockholders will have to pay personal taxes on the firm's net income.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
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12. If a corporation elects to be taxed as an S corporation, then both it and its stockholders can avoid all Federal taxes. This provision was put into the Federal Tax Code in order to encourage the formation of small businesses.

- a. True
- b. False

*ANSWER:* False

*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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13. It is generally less expensive to form a corporation than a proprietorship because, with a proprietorship, extensive legal documents are required.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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14. The more capital a firm is likely to require, the greater the probability that it will be organized as a corporation.

- a. True

b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
*STATE STANDARDS:* United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
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15. One disadvantage of forming a corporation rather than a partnership is that this makes it more difficult for the firm's investors to transfer their ownership interests.

a. True

b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-3 Forms of Business Organization  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.03 - Forms of Business Organization  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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*LOCAL STANDARDS:* United States - OH - Default City - Students will understand and be -  
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16. Organizing as a corporation makes it easier for the firm to raise capital. This is because corporations'

stockholders are not subject to personal liabilities if the firm goes bankrupt and also because it is easier to transfer shares of stock than partnership interests.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** EASY  
**REFERENCES:** 1-3 Forms of Business Organization  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** FOFM.BRIG.17.01.03 - Forms of Business Organization  
**NATIONAL STANDARDS:** United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
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17. In order to maximize its shareholders' value, a firm's management must attempt to maximize the stock price in the long run, or the stock's "intrinsic value."

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** EASY  
**REFERENCES:** 1-4 The Main Financial Goal: Creating Value for Investors  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** FOFM.BRIG.17.01.04 - The Main Financial Goal: Creating Value for Investors  
**NATIONAL STANDARDS:** United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
**STATE STANDARDS:** United States - OH - DISC.FOFM.BRIG.17.01 - Stocks and bonds  
United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
**LOCAL STANDARDS:** United States - OH - Default City - Students will understand and be - Students will understand and be able to articulate the goals of the firm, the role of the finance function in the enterprise's organization, and as an analyst using public information.  
**TOPICS:** Intrinsic values  
**KEYWORDS:** Bloom's: Knowledge

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18. If management operates in a manner designed to maximize the firm's expected profits for the current year, this will also maximize the stockholders' wealth as of the current year.

- a. True
- b. False

ANSWER: False  
POINTS: 1  
DIFFICULTY: EASY  
REFERENCES: 1-4 The Main Financial Goal: Creating Value for Investors  
QUESTION TYPE: True / False  
HAS VARIABLES: False  
LEARNING OBJECTIVES: FOFM.BRIG.17.01.04 - The Main Financial Goal: Creating Value for Investors  
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TOPICS: Intrinsic values  
KEYWORDS: Bloom's: Knowledge  
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19. In order to maximize its shareholders' value, a firm's management must attempt to maximize the expected EPS.

- a. True
- b. False

ANSWER: False  
POINTS: 1  
DIFFICULTY: EASY  
REFERENCES: 1-7 Balancing Shareholder Interests and the Interests of Society  
QUESTION TYPE: True / False  
HAS VARIABLES: False  
LEARNING OBJECTIVES: FOFM.BRIG.17.01.07 - Balancing Shareholder Interest and the Interests of Society  
NATIONAL STANDARDS: United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking  
STATE STANDARDS: United States - OH - DISC.FOFM.BRIG.17.06 - Finance function  
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*TOPICS:* Shareholder interests  
*KEYWORDS:* Bloom's: Knowledge  
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20. In order to maximize its shareholders' value, a firm's management must attempt to maximize the stock price on a specific target date.

- a. True
- b. False

*ANSWER:* False  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-7 Balancing Shareholder Interests and the Interests of Society  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
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*TOPICS:* Shareholder interests  
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21. As a result of financial scandals occurring during the past decade, there has been a strong push to improve business ethics.

- a. True
- b. False

*ANSWER:* True  
*POINTS:* 1  
*DIFFICULTY:* EASY  
*REFERENCES:* 1-8 Business Ethics  
*QUESTION TYPE:* True / False  
*HAS VARIABLES:* False  
*LEARNING OBJECTIVES:* FOFM.BRIG.17.01.08 - Business Ethics  
*NATIONAL STANDARDS:* United States - BUSPROG.FOFM.BRIG.17.02 - Ethics  
United States - BUSPROG.FOFM.BRIG.17.06 - Reflective thinking