



Module 1 Exam – *With Answers*

Instructions

- This is an exam. Do not talk.
- Your books, notes, and electronic devices must be put completely away, out of sight.
- **Do not open the exam** until you are told to begin.
- Once you leave the exam room, you may not return. No bathroom or other breaks during the exam
- Turn in your Scantron in the folder for your Discussion Section number.
- Keep the questions when you leave.
- If you do not have a Scantron form/pencil, take your seat, raise your hand and wait with your \$10
- Any contravention of these instructions will lead to your ejection from the exam with zero points
- While you are waiting to begin, enter the following information on your Scantron:

LINE:	INFO TO ENTER:	EXPLANATION:
Name:	LAST, First, Middle	Make sure your family name comes first
Subject:	1234-5678	Your Student ID Number
Test No.:	See question 38	This is your test version (ABCD) and unique ID number (0 to 9999)
Date:	1	This is the module number for this exam
Hour (Period):	101, 102, 103, etc.	This is your Discussion Section number – see below

Section	Day / Time	GSI Name
101	Tu 8-9A	Rajat Gulati
102	Tu 9-10A	Rajat Gulati
103	Tu 10-11A	Chris Dulgarian
104	Tu 11-12P	Chris Dulgarian
105	Tu 2-3P	Mitya Voloshchuk
106	Tu 5-6P	Mitya Voloshchuk
107	W 8-9A	Debora Basso
108	W 9-10A	Claire Bianchi
109	W 10-11A	Claire Bianchi
110	W 11-12P	Steven Truong
111	W 12-1P	Steven Truong
112	W 1-2P	Josie Sullivan
113	W 5-6P	Josie Sullivan
114	Th 8-9A	Debora Basso
115	Th 9-10A	Joseph Hanna
116	Th 10-11A	Joseph Hanna
117	Th 1-2P	Andrea Soto
118	Th 5-6P	Andrea Soto

UGBA 10 – Principles of Business
MODULE 1 EXAM – Spring 2016 2/12/2016
FINANCE & ACCOUNTING
Instructor: Professor Briginshaw

1) Which of the following is an accurate restatement of the **accounting equation**?

- A) $\text{Income} = \text{Revenue} - \text{expenses}$
- B) $\text{Revenue} = \text{cash flow} - \text{cash expenditures}$
- C) $\text{Expenses} = \text{Costs} - \text{other income}$
- D) $\text{Stockholders equity} = \text{Assets} - \text{Liabilities}$

Answer: D

Explanation: D) The accounting equation is $A=L+SE$, subtract L from both sides to get the expression in part D. A is true but this is not the accounting equation. Lecture 3.

2) The rate at which the Federal Reserve loans money to member banks is called the...

- A) Prime rate.
- B) Federal Funds Rate.
- C) Discount rate.
- D) Key rate.

Answer: C

Explanation: C) Textbook P. 272

3) Because businesses engage in thousands of transactions, ensuring consistent dependable financial information is mandatory. This is the job of the...

- A) forensic accounting team
- B) financial and managerial accountants
- C) independent auditors (CPA)
- D) accounting information system (AIS)

Answer: D

Explanation: D) See textbook P. 218. As noted in the textbook, the production of consistent, dependable financial information requires not only people, but also computers, procedures and other resources, so the other answers, which include only people, cannot be correct.

4) Which of the following statements is TRUE?

- A) As common practice, a sales representative for a firm receives information from the firm's financial accounting system.
- B) As common practice, a sales representative for a firm receives information from the firm's managerial accounting system.
- C) As common practice, a sales representative for a firm receives information from both the firm's managerial accounting system and its financial accounting system.
- D) As common practice, a sales representative for a firm receives information from the firm's revenue accounting system.
- E) As common practice, a sales representative for a firm does not receive any information from the firm's accounting system.

Answer: B

Explanation: B) The managerial accounting system is concerned with internal users.

5) Which of the following describes assets such as goodwill, patents and trademarks?

- A) liquid assets
- B) fixed assets
- C) intangible assets
- D) current assets
- E) limited assets

Answer: C

Explanation: C) Intangible assets are things of value to the business that have no physical substance.

6) According to the standard rule of thumb of asset allocation, as investors near retirement they should have

- A) An increasing proportion of their investments in stocks
- B) A decreasing proportion of their portfolio in stocks
- C) A constant dollar amount of their portfolio in stocks
- D) A constant percentage of their portfolio in stocks

Answer: B

Explanation: Investors should consider investing about their age as a percentage in bonds, so as age increases common stock proportion decreases

Reference: Lecture 8, slide 21

7) A customer has a bond fund which returns 1% before fees, and the fees/charges for the fund are 2% of the investment per year. In 2009, the customer invests \$10,000 in the fund. After three years, the customer's funds would be closest to:-

- a) \$9700
- b) \$9850
- c) \$10,150
- d) \$10,300

Answer: a. The customer has a positive return of \$100 (1%) before fees, but pays fees of \$200 for a net loss of \$100 per year

8) CheeseMasters is a cheese shop. In January, CheeseMasters finds some excellent cheese called Mozzarella from Italy. They buy \$1500 worth for cash, taking delivery and paying in January. In February they start to sell the cheese, and deliver two thirds of the cheese to selected customers for a 50% markup in February. The customers will pay in March. What is the Revenue, Income and Cash flow for CheeseMasters in **February**?

	Revenue	Income	Cash flow
a)	1500	500	500
b)	2250	500	0
c)	1500	500	0
d)	2250	750	-500

Answer: C

Explanation: Costs are $\frac{2}{3} \times \$1500 = \1000 . Markup (income) is \$500, implying revenue of \$1500. There is no cash flow in February, because the suppliers were already paid in January and the customers will pay in March.

Contribution Margin

9) Fidel's Pizza pays \$1500 fixed rent per month and each pizza costs \$3 in variable costs (for example: ingredients and hourly paid labor). Pizzas sell for \$6 per pizza - what is the break-even number of pizzas for Fidel's pizza?

- a) 400 pizzas
- b) 267 pizzas
- c) 667 pizzas
- d) 500 pizzas

Answer: d

CM per unit = price minus variable cost per unit = $\$6 - \$3 = \$3$

Profit = volume x CMPU - fixed_cost \Rightarrow Volume_BE = $\text{fixed_cost} / \text{CMPU} = 1500 / 3 = 500$ u

10) Fidel's Pizza pays \$1500 fixed rent per month and each pizza costs \$3 in variable costs (for example: ingredients and hourly paid labor). Pizzas sell for \$6 per pizza. If Fidel's sells 400 pizzas, what is the total contribution margin and what is the profit (ignore taxes)?

	Contribution margin	Profit
a)	\$1500	\$0
b)	\$1200	\$300
c)	\$1000	\$200
d)	\$1200	-\$300 (Loss)

Answer: d

Total_CM = $\$3 \times 400 = \1200

Profit = volume x CMPU - fixed_cost = Total_CM - fixed_cost = $\$1200 - 1500 = -\300

11) According to nirsonline.org and as noted in lecture, what proportion of working age households have **no** retirement savings?

- a) 25%
- b) 45%
- c) 65%
- d) 85%

Answer: B (see lecture 8, slide 7)

12) Assume that an 8% reserve requirement has been imposed on banks. A client of Wells Fargo gets a \$100 bill from her wallet. She deposits the \$100 in a checking account. What is the effect on the M-1 money supply of her depositing the \$100?

- a) There is no change in the M-1 Money supply
- b) The M-1 Money supply increases by \$100
- c) The M-1 Money supply increases by \$92
- d) The M-1 Money supply increases by \$192

Answer: A

Explanation: At this point, cash in the hands of members of society has been decreased by \$100 but the checking account balance has been increased. Since both are part of M-1, there is no net effect. The money supply can increase when the bank **lends out** the money.

13) A jeweler assesses the value of a flawless white diamond as considerably more than that of a rhinestone. Which function of money does this illustrate?

- A) foundation of banking
- B) medium of exchange
- C) store of value
- D) measure of worth
- E) stabilization of value

Answer: D

Explanation: D) Money lets us measure the value of goods and services.

14) Which of the following statements BEST describes why the recent **purchases** of bonds by the Federal Reserve as part of quantitative easing have led to an **increase** in the money supply?

- A) A purchase of bonds leads to a lower supply of bonds, thus increasing bond prices.
- B) An increase in the money supply may lead to inflation.
- C) A decrease in reserve requirements gives banks more money to lend out.
- D) The Federal Reserve has often created money to purchase the bonds.

Answer: D

Explanation: D) Discussed in the box on page 273. The other answers, while true, are not relevant.

15) Checks in transit (for example, checks in the mail) would be part of which measure of money supply...?

- A) M-1 but not M-2
- B) M-2 but not M-1
- C) Counted as part of M-1 and part of M-2
- D) Not counted within either M-1 or M-2

Answer: C

Explanation: C) M-1 includes only the most liquid forms of money: cash, checks, and checking accounts. However, M-2 incorporates everything in M-1 (plus short term deposits). Page 262

16) When thinking about exchange rates, a cheap dollar relative to the Euro is **disadvantageous** for

- a) Euro zone tourists visiting the United States
- b) US exporters selling into the Euro Zone
- c) European companies seeking to sell imports into the USA
- d) Japanese tourists visiting Europe

Answer: C – a given number of (cheap) dollars buys less in euros, making the European product uncompetitive with domestic and other output.

17) The Managing Director of the International Monetary Fund was reappointed to a 5 year term yesterday. Who is it?

- a) Mario Draghi
- b) Ethan Hunt
- c) Christine Lagarde
- d) David Cameron

Answer: C.

18) A person seeking to plan their retirement will be able to save the **lowest** proportion of their income if they start saving at a young age and retire at an old age. All of the following are reasons why this is true **except**

- a) Retirement at an old age decreases the years the person will need pension income
- b) Saving at a young age increases the years in which the pension investments can grow
- c) Working for a long period of time increases the number of times the person can “cash-out” from employers
- d) All of the above are true

answer: C

Explanation: It is not a good idea to cash out as you lose penalties and the potential to grow savings

19) A person expects to receive a risky cash flow of \$250 in 2 years. Similar risky investments provide an expected return, r , of 25% per year. The present value of the investment is closest to....

- a) \$250
- b) \$200
- c) \$160
- d) Cannot be determined due to the risk

Answer: c

Explanation: $PV = 250 / (1.25^2)$. 250 divided by 1.25 (5/4) is equivalent to multiplying by 0.8 = 200. Dividing by 1.25 again gives 160.

20) According to the discussion of Amazon.com in lecture, what is the “secret” that may justify Amazon.com’s high stock price?

- a) Exceptional growth prospects in retail
- b) High asset turnover
- c) Low Financial leverage
- d) Potential for fast growth in the high margin AWS (Amazon Web Services) segment

Answer: D

Explanation: See Lecture 5, slide 23

21) According to the “High Anxiety” reading, investors are **most worried** about:

- a) Greek Exit from the EU (Grexit)
- b) Inflation in the US
- c) China’s economic slowdown and depreciating currency

d) Deflation in Japan

Answer: C

Explanation: See High Anxiety paragraph 5. The other topics are not mentioned or only mentioned in passing.

22) Which of the following items within the Capsim finance screen leads to an increase in cash in the possession of **common stock (equity) investors**

- a) Paying dividends
- b) Retiring Long term debt
- c) Issuing Long Term Debt
- d) Issuing Stock

Answer: A

Explanation: Dividends are cash out of the company paid to the equity investors. Issuance of stock results in the common stock holder **paying** money. Debt transactions have no effect on the equity holder.

23) A city of 150,000 people has a large commercial sector bringing in businesses from the surrounding region. In 2007, there was 2.75 million square feet of commercial space available. Five years later, after a building boom, there was 5.5 million square feet of commercial space available.

Which effect will MOST likely occur?

- A) The equilibrium price of commercial real estate will not be affected.
- B) The increase in the supply of commercial real estate will lead to a corresponding increase in its price.
- C) The price of commercial real estate will decrease, absent a dramatic increase in demand.
- D) The increase in the supply of commercial real estate will lead to an increase in resource prices.
- E) The increase in supply will cause a corresponding increase in demand.

Answer: C

Explanation: C) Since the supply of commercial real estate has dramatically increased, unless there was a dramatic increase in demand, we would expect the price of commercial real estate to decrease.

24) According to the discussion in lecture, what is the prevalence of **barter systems** in economic history?

- a) Barter systems have been used for most of known human history
- b) Barter systems are universal within family units
- c) Due to the convenience of money, barter systems have rarely been used for extended periods of time
- d) Barter systems use items of exchange that are stable, durable, divisible and portable

Answer: C.

Explanation: There is little or no evidence for the frequent use of barter in history. Money has been used for most of human history. Family units do not barter but freely share their resources. Stability, durability, divisibility and portability are the characteristics of money, so a system that uses such an item of exchange would not be a barter system.

25) What is the formula for measuring a firm's working capital?

- A) current assets = working capital / current liabilities
- B) working capital = current assets - current liabilities
- C) current liabilities = current assets + working capital
- D) working capital = current assets x current liabilities
- E) current liabilities = current assets / working capital

Answer: B

Explanation: B) Subtracting current liabilities from current assets lets you know how much money a firm has to work with. See page 313 of the custom text.

26) Which of the following is considered by many to be the BEST single indicator of the U.S. equities market?

- A) NASDAQ Composite
- B) Russell 2000
- C) Dow Jones Industrial Average
- D) Standard & Poor's 500
- E) New York Stock Exchange

Answer: D

Explanation: D) The S&P 500 considers more companies than the Dow Jones, and so is regarded as a better indicator.

27) Which of the following statements is true about treasury bonds as investments?

- A) Bond interest payments fluctuate with the market.
- B) Bonds are most suitable for investors who seek security.
- C) Bond prices fall when prevailing interest rates fall.
- D) Bonds can generally be redeemed on demand by the government.

Answer: B

Explanation: B) Bonds are an extremely secure investment, although they are not immune to fluctuations in interest rates. However these fluctuations do not affect the interest **payments**, only the rate of interest, as bonds are **fixed income instruments** (A). Also, bond prices rise, when prevailing interest rates fall (C). Bonds are long term securities, not demand deposits (D)

Financial Statement and ratio analysis: Use the following information on Alfred Incorporated to answer the next **three** questions. Assume that these numbers are both average and year-end, as needed.

Average stockholders' equity	\$20,000	Net income	\$ 1,500
Average total assets	\$40,000	Net sales	\$60,000
Current assets	\$5,000		
Current liabilities	\$10,000		
Number of shares outstanding:	1500		
Dividends per share	\$0.30		

28) What is the Financial leverage for Alfred Inc?

- a) 2
- b) 2.5%
- c) 50%
- d) 1.5

Answer: A

Explanation: Financial leverage = assets/equity = 40000/20000 = 2 or 200%, see HBS reading

29) What is the profit margin for Alfred?

- a) 2 b) 2.5% c) 50% d) 1.5

Answer: B

Explanation: Profit margin = net income/sales = 1.5/60 or 1 in 40. see HBS reading

30) What is the earnings per share for Alfred Inc?

- a) \$1 b) \$0.70 c) 30% d) \$0.30

Answer: A

Explanation: Earnings per share = net income/Number of shares, lectures 2, 5 and textbook pages 233-234

31) Hadwell Inc has a current stock price of \$40, annual earnings per share of \$4 and annual dividends per share of \$2. What is Hadwell's annual **earnings yield**?

- a) 5%
b) 10%
c) 15%
d) 50%

Answer: B. Earnings yield = eps/stock price

32) Which of the following correctly describes a defined contribution (DC) pension scheme?

- a) The pension is a guaranteed income which is paid unless the employer goes broke
b) The employee's dollar ownership in the scheme is difficult to calculate due to actuarial issues
c) The pension is entirely dependent on the money contributed by the employee, which is repaid in retirement without loss or gain
d) The pension is entirely dependent on the money contributed by the employee and/or employer, and the investment choices made by the employee to increase that money

Answer: d

Explanation: The DC scheme allows the employee to choose the investments and benefit from the returns, however the pension is not guaranteed. Options a and b describe a defined benefit (DB) scheme.

33) Hogman's Inc recorded net income of \$8000 in 2014. In total, stockholders equity increased by \$6000. If there were no new investments in the equity, what must be true about dividends?

- a) no dividends were paid
b) \$2000 dividends were paid
c) \$8000 dividends were paid
d) \$14000 dividends were paid

Answer: B

Explanation: Earnings retained was \$6000, which means that the remaining \$2000 must have been paid out as dividends.

- 34) Which of the following would NOT be included in US GDP?
- a) Salaries of US workers at a US owned factory in Tennessee
 - b) Rent paid to the US based owner of the factory in Tennessee
 - c) Salaries of Mexican workers at a US-owned factory in Mexico
 - d) Salaries of US Workers at a Japanese owned factory in Iowa

Answer: C

Explanation: GDP depends on the physical location of the production. The salaries of the workers in Mexico would be included in Mexico's GDP, not the US's. The profits from the Mexico factory would be included in the US GNP, but not its GDP. The wages paid in Mexico would be included in neither the US GDP nor US GNP.

35. According to the "Brokers Fight Rule..." reading, what is the meaning of the term "fiduciary"...

- a) A broker authorized by the Labor department
- b) A broker who is licensed to offer both retirement **and** other investment advice
- c) A broker who is licensed to offer **only** retirement advice
- d) A broker who must put their customers' interests first

Answer: D, reading page 1

36. Which of the following exists when an industry or market has few competitors such as the steel or aircraft industry?

- A) competition
- B) oligopoly
- C) monopoly
- D) communism
- E) socialism

Answer: B

Source: textbook page 9

37. I have carefully checked my Scantron. My Section number and name is correctly shown

- a. Yes
- b. No

38. This is version "A": fill in the "A" bubble for this question and write the letter and unique exam identifier "A0000" in the "TEST NO." box of your Scantron.

IMPORTANT NOTE: IN THE EVENT YOU DO NOT WRITE YOUR UNIQUE IDENTIFIER (A0000) ON THE SCANTRON, IF YOUR IDENTIFIER DOES NOT MATCH THAT SHOWN ABOVE OR IF IT HAS BEEN USED BY ANOTHER STUDENT, YOU WILL AUTOMATICALLY SCORE ZERO ON THIS TEST.