



Module 1 Exam

Instructions

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- **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
- Place your Scantron on top of the envelope for your Discussion Section number and exam version.
- Keep the question paper when you leave.
- If you do not have a Scantron form/pencil, take your seat, raise your hand and wait with your \$10
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Name:	LAST, First, Middle	Make sure your family name comes first
Subject:	1234-5678	Your Student ID Number
Test No.:	A0000	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	Shipra Agarwal
102	Tu 9-10A	Cody Little
103	Tu 10-11A	Cody Little
104	Tu 11A-12P	Zarrah Birdie
105	Tu 12-1P	Zarrah Birdie
106	W 8-9A	Rodrigo Calmet
107	W 10-11A	Rodrigo Calmet
108	W 11A-12P	Sankar Sarma
109	W 12-1P	Sankar Sarma
110	W 1-2P	Shipra Agarwal
111	Th 8-9A	Debora Basso
112	Th 9-10A	Debora Basso
113	Th 10-11A	Thomas Jacobson
114	Th 11A-12P	Thomas Jacobson
115	Th 12-1P	Lucas Beard
116	Th 1-2P	Lucas Beard
117	Tu 1-2P	Scott Anderson
118	Tu 2-3P	Scott Anderson

UGBA 10 – Principles of Business
MODULE 1 EXAM – Fall 2016 9/16/2016
FINANCE & ACCOUNTING
Instructor: Professor Briginshaw

1) Determine which **one** of the following expressions are accurate:

- 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) $\text{Income} = \text{Profit} - \text{dividends}$

Answer: A

Explanation: A) A correctly describes the calculation of income. B and C are not correct. D describes the calculation of retained earnings not income.

2) Which of the following statements **BEST** describes the difference between current and long-term liabilities?

- A) Current liabilities are debts on tangible assets, whereas long-term liabilities are debts on intangible assets.
- B) Current liabilities are those which will cost less in debt interest than long-term liabilities.
- C) Current liabilities are debts that are settled sooner than long-term debts.
- D) Current liabilities are debts on current assets, whereas long-term liabilities are debts on fixed and intangible assets.

Answer: C

Explanation: C) Current liabilities include accounts payable: unpaid bills to suppliers for materials as well as wages and taxes that must be paid in the coming year. Long-term liabilities are debts that are not due for at least a year. Liabilities of a company are general claims on the company, and are not matched to a specific asset, invalidating A and D. See also page 50 / 226

3) Which are the two major fields of accounting?

- A) managerial and forensic
- B) financial and managerial
- C) bookkeeping and advisory
- D) corporate and individual
- E) public and private

Answer: B

Explanation: B) The two fields of accounting can be classified according to the users they serve; it is convenient and accurate to classify users as those outside the company and those inside the company. P. 41 / 219

4) Which of the following circumstances would be **most indicative** of **labor market slack**?

- | | Unemployment rate | Labor Force Participation |
|----|-------------------|---------------------------|
| A) | Lower | Lower |
| B) | Lower | Higher |
| C) | Higher | Lower |
| D) | Higher | Higher |

Answer: C

Explanation: A higher unemployment rate indicates more people actively searching for work, and a lower labor participation rate indicates more folk “on the sidelines” due (for example) to early retirement, but some of whom could be “tempted back” into work if more jobs become available or salaries rise. Both of these groups form potential supply (i.e. slack) for the labor market.

5) Accounts payable and long-term debts are examples of what?

- A) assets
- B) liabilities
- C) stockholders’ equity
- D) expenses

Answer: B

Explanation: B) Payables, debts and other non-residual claims are liabilities of the company.

6) What type of loan is guaranteed by collateral?

- A) Unsecured loan
- B) Venture capital loan
- C) Angel investor loan
- D) Secured loan
- E) Corporate bond

Answer: D

Explanation: D) In a secured loan (asset-backed loan), the borrower guarantees repayment of the loan by pledging the asset as collateral to the lender.

7) A customer has a bond fund which returns 2% per year before fees, and the fees/charges for the fund are 1.5% of the investment per year. In 2013, the customer invested \$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: C. The customer has a positive return of \$200 (2%) before fees, but pays fees of \$150 for a net gain of \$50 per year

8) Premiere Cheese is a cheese shop. In January, Premiere finds some excellent cheese called Feta from Greece. They buy \$1200 worth on credit, taking delivery in January and paying suppliers in **March**. In February they start to sell the cheese, and deliver two thirds of the cheese to selected customers for a 75% markup in February. The customers pay cash in **February**. What is the Revenue, Income and Cash flow for Premiere in **February**?

	Revenue	Income	Cash flow
a)	800	800	800
b)	2100	900	2100
c)	1400	600	200
d)	1400	600	1400

Answer: D

Explanation: Costs are $\frac{2}{3} \times \$1200 = \800 . Markup (income) is \$600, implying revenue of \$1400. There is positive cash flow of \$1400 in February (equal to revenue), because the customers pay immediately in cash and suppliers will be paid in March.

Contribution Margin

9) Andrew's Pizza pays \$2000 fixed rent per month and each pizza costs \$6 in variable costs (for example: ingredients and hourly paid labor). Pizzas sell for \$10 per pizza – What is the contribution margin per pizza?

- a) \$4
- b) \$6
- c) \$8
- d) \$10

Answer: a

CM per unit = price minus variable cost per unit = $\$10 - \$6 = \$4$

10) Andrew's Pizza pays \$2000 fixed rent per month and each pizza costs \$6 in variable costs (for example: ingredients and hourly paid labor). Pizzas sell for \$10 per pizza – How many pizzas must Andrew's sell to record a **profit** of \$500?

- a) 400 pizzas
- b) 500 pizzas
- c) 625 pizzas
- d) 2500 pizzas

Answer: c

CM per unit = \$4

Profit = volume x CMPU – fixed_cost => $\text{Volume}_{Pr500} = \frac{\text{total_CM}}{\text{CMPU}} = \frac{2500}{4} = 625 \text{ u}$

11) What have been the changes in retirement schemes in the last 20-30 years?

- a) Increasing proportion of defined benefit schemes
- b) Increasing proportion of defined contribution schemes
- c) Increasing number of employers offering defined benefit schemes
- d) Increased importance of making sure to cash out your retirement scheme when leaving an employer

Answer: B (see lecture 7, slide 15)

12) Assume that a 9% 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, and then the bank loans the money (net of the reserve requirement) to another person in cash. What is the effect on the M-1 money supply of this series of transactions?

- 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 \$91
- d) The M-1 Money supply increases by \$191

Answer: C

Explanation: The money supply increases because the \$100 original cash has been transformed into \$100 checking account balance and \$91 (\$100 net of \$9 reserve requirement) cash in the hand of the borrower.

13) Which of the following BEST describes the portability characteristic of money?

- A) If it wears out, it can be replaced.
- B) Units of money can be matched with the value of goods.
- C) It allows people to measure the relative value of goods and services.
- D) It is light and easy to handle.

Answer: D

Explanation: D) Money is easy to carry, which makes it easy to use.

14) What type of economy is the United States reflective of?

- A) Planned
- B) Mixed
- C) Market
- D) Private
- E) Socialist

Answer: B

Explanation: B) There are very few pure market economies today. The United States has features of both planned and market economies and is therefore considered to be a mixed market economy. See page 14.

15) What is the **best** indicator of the total value of goods and services produced by a national economy in a given time period?

- A) Standard of living
- B) Purchaser Production index
- C) Gross domestic product
- D) Output per capita
- E) Inflation rates

Answer: C

Explanation: C) Gross domestic product measures the value of all goods and services in a national economy for a specific period of time, see page 21.

16) When the value of a currency is strong in the international market, what is the **most likely** effect on international trade?

- A) Exports increase because the cost of items is more affordable in the international market.
- B) Exports decrease because the cost of items is more expensive in the international market.
- C) Imports decrease due to hoarding of currency.
- D) Trade decreases because the manufacturers limit production of items.

Answer: B

Explanation: B) When the value of a country's currency is strong, there is usually a weaker international demand, because the item costs more in the country where it is shipped.

17) A territory of the United States has recently been in the news because its high debts had to be restructured by Congress. Name the territory:

- a) Puerto Rico
- b) Louisiana
- c) Johnson Atoll
- d) Luxembourg

Answer: A. Puerto Rico's \$70bn debt was restructured in June under the Puerto Rico Oversight, Management and Economic Stability Act. Due to its high yield, the Puerto Rico debts were unfortunately quite widely held by private investors and municipal bond mutual funds(!) leading to capital losses on "Main St".

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 will invest \$50 in a 3 year project which returns 10%. The money received at the end of the project (future value) will be closest to...

- a) \$35
- b) \$37.50
- c) \$65
- d) \$66.50

Answer: D

Explanation: $FV = 50 \times 1.1^3 = 66.55$. Alternatively, A and B can be eliminated as they are smaller than the current amount, and C shows only "simple" interest (i.e. no compounding to obtain the time value of money) of \$5 per year.

20) The study.net / Economist article "Why investors buy bonds with negative yields" identifies three groups of investors who may seek to buy bonds with negative yields. Which of the following are **not** one of the groups?

- a) investors who **have** to own government bonds (for example, due to liquidity or collateral requirements)
- b) those who think that it is possible to make money **despite** the negative yields (for example due to foreign exchange fluctuations)
- c) small-scale local private investors seeking a safe, secure income in retirement
- d) anxious investors who prefer a small loss on government bonds to a much bigger potential loss elsewhere **NOTE: READING DELETED**

Answer: C

Explanation: A, B and D are mentioned in the article. While small scale investors may buy bonds for retirement, they would be unlikely to buy **negative yielding** bonds, preferring to keep the money on deposit (usually insured for small to medium sized investors) or even in cash, rather than “burn up” money with the negative yield. Keeping in cash might not be a practical option for extremely wealthy investors, but for small scale investors it would be.

21) Congress decides to boost the economy by building infrastructure (**additional spending** on, for example, high-speed rail) **WITHOUT** increasing **taxes**. This is an example of stimulus by

- a) Monetary policy
- b) Tea party policy
- c) Fiscal policy
- d) Cannot happen as Government will run out of money

Answer: C

Explanation: Fiscal policy is management of the economy by altering the balance between government spending and tax revenue. If the government applies fiscal stimulus by increasing spending without adding to taxes, the difference is made up by government borrowing (debt)

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) Which of the following **BEST** describes what is called the "open-market operations" of the Federal Reserve System?

- A) The development of new financial opportunities for banks
- B) The minting of new money to disperse into the money market
- C) The control of interest rates among banks
- D) The maintenance of a well-functioning lending system among banks
- E) The buying and selling of securities

Answer: E

Explanation: E) See page 92.

24) What are the characteristics of the exchange economy which typically operate **within** family units, if any?

- a) Family units customarily use barter
- b) Family units typically use money to carry out exchange between family members

- c) Family units type of exchange economy varies depending on the culture
- d) Family units do not generally operate an exchange economy, instead freely sharing their resources

Answer: D.

Explanation: Family units freely share their resources. For example, babies and children have nothing to exchange until they get older.

25) One of the practical problems in using a barter system is that a trader who wishes to exchange commodity A for commodity B, would have to locate another trader who not only has her desired commodity B, but also requires commodity A. According to the discussion in lecture, this problem is referred to as the...?

- A) Commodity matching limitation
- B) Barter replication problem
- C) Commodity association conundrum
- D) Coincidence of wants problem

Answer: D

Explanation: See lecture 5.

26) Which of the following is considered by many to be the BEST indicator of the market for common stocks of technology companies?

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

Answer: A

Explanation: A) The NASDAQ contains a high proportion of technology stocks, whereas the Dow Jones is weighted more towards industrials, the S&P 500 being the most balanced. See page 125.

27) Suppose the Federal Reserve increases interest rates (also known as yields) in the marketplace for US Government Treasury Bonds (fixed income instruments). What is the **most likely effect** on the prices of existing bonds issued before the interest rate increase?

- A) Bond prices will tend to fall.
- B) Bond prices will tend to rise.
- C) Bond prices will stay the same.
- D) Bond price movements will depend on whether interest is paid annually or semiannually.

Answer: A

Explanation: A) Bonds prices and interest rates have an inverse relationships. This is because interest **payments do not change**, as bonds are **fixed income instruments**. In this example, the existing bonds based on lower interest payments before the rate rise look less attractive, and therefore decline in price.

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

Average stockholders' equity	\$20,000	Net income	\$ 3,000
Average total assets	\$30,000	Net sales	\$60,000
Current assets	\$5,000		
Current liabilities	\$5,000		
Number of shares outstanding:	1500		
Dividends per share	\$0.30		

28) What is the profit margin for Doggone?

- a) 2 b) 15% c) 1.5 d) 5%

Answer: D. $PM = \text{Net income}/\text{Sales} = 3/60 = 5\%$

29) What is the asset turnover for Doggone?

- a) 2 b) 15% c) 1.5 d) 5%

Answer: A. $ATO = \text{Sales}/\text{Assets} = 60/30 = 2$

30) What is the **most important factor** in financial analysis and valuation that is **not covered** by the DuPont analysis discussed in the study.net / HBS paper “Financial Statement and Ratio Analysis”?

- a) Return on equity
b) Management Discussion and Analysis
c) Expected growth in revenues and profits
d) Profit margin

Answer: C

Explanation: A and D **are** included in the Dupont analysis. Of the remaining factors C is the more important, as expected growth is a significant contributor to stock market value. B (MD&A) tends to be unreliable, as management often assess the company in positive terms which are not always justified.

31) Bixby Inc has a current stock price of \$60, annual earnings per share of \$9 and annual dividends per share of \$6. What is Bixby’s annual **dividend yield**?

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

Answer: B. $\text{Dividend yield} = \text{dividends}/\text{stock price} = 6/60 = 10\%$. See page 127.

32) Which of the following correctly describes a defined benefit (DB) pension scheme?

- a) The pension is an income which is paid to the employee in retirement, unless the employer goes bankrupt

- b) The employee's dollar ownership in the scheme is easy to calculate as it is the employee's investment plus accumulated gains
- 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: A

Explanation: The DB scheme pays a set pension based on years of service. It is a liability of the employer, so is required to be paid while the employer is in business. Options b and d more closely describe a defined contribution (DC) scheme.

33) What is the term for buying several different kinds of investments rather than just one?

- A) spreading
- B) shorting
- C) margin buying
- D) diversification
- E) management

Answer: D

Explanation: D) The risk of loss is reduced by spreading the investment across asset classes and, within those classes, different stocks and bonds.

34) Which of the following refers to the financial statement detailing a firm's assets, liabilities, and owners' equity?

- A) Income statement
- B) Statement of cash flows
- C) Balance sheet
- D) Expense report
- E) Annual budget

Answer: C

Explanation: C) A balance sheet uses the accounting equation to show the current value of a company.

35) Topham Hatt is a wealthy man with \$500,000 in a savings account at the Wells Fargo Bank in Berkeley, \$250,000 in a Wells Fargo Checking account at the El Cerrito Branch, and \$250,000 in a checking account at the Bank of America in Emeryville. How much of it is insured by the FDIC, if the FDIC insurance limitations are \$250,000 per account owner, per bank?

- a Zero
- b \$250,000
- c \$500,000
- d \$750,000
- e \$1,000,000

Answer: C

Explanation: Mr Hatt has to be more careful! Any holdings by one **account holder** over \$250K in one bank (such as the \$750,000 total held at Wells) is uninsured, even if held in different **accounts** or bank branches.

36. Which of the following are potential **advantages** of investing in the **common stock** of a company?

A) regular income, which is required to be paid by the company

B) repayment of principal at maturity

C) higher historical returns than bonds may predict future returns

D) usually little or no value if the company has to be liquidated

Answer: C

Source: Stocks have typically returned more than bonds in the long run. A and B are characteristic of bonds. D is a disadvantage of stocks.

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.

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