



## FINAL EXAM

# Course # 171009 Financial Essentials for Not for Profit Financial

based on the electronic .pdf file(s):

### **Financial Essentials for Not for Profit Financial Managers**

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pages



14 CPE Credit Hours  
Accounting & Auditing

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*This exam sheet is made available for your convenience in answering questions while offline.*

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## **Chapter 1 - What Every Nonprofit Manager Should Know About Accounting and Finance**

1. "Different costs for different purposes" is a central idea of management accounting and financial management, which allows for flexibility in meeting internal user needs. T F

TRUE

FALSE

2. Funding options available to nonprofit organizations include pooled bond issue and private bond offerings. T F

TRUE

FALSE

3. All of the following statements are correct EXCEPT

Costs may be indirect and variable.

Costs may be direct and variable.

Costs may not be indirect and fixed.

Costs may be direct and fixed.

4. Sunk costs cannot be relevant to

Choosing from alternative actions.

Predicting costs.

Analyzing cost behavior.

Determining past or historical costs.

5. Fixed costs that are never relevant to decisions include

Future costs.

- Past costs.
- Both of the above.
- None of the above.

## Chapter 2 - Accounting Basics for Nonprofits

6. Expenses must be reported in which class of net assets?

- Temporarily restricted.
- Permanently restricted.
- Unrestricted.
- Equity.

7. Restricted grants should initially be recorded as

- Revenue.
- Deferred revenue.
- Disclosure only.
- Stockholders' equity.

8. Contractual obligations are called

- Expenditures.
- Budgets.
- Encumbrances.
- Transfers.

9. Nonprofits can recognize unconditional pledges as assets when made even though the actual cash is still not received. T F

- TRUE

FALSE

10. Most larger NPOs use which basis of accounting?

Cash.

Accrual.

Modified accrual.

Tax.

11. Revenue must be spent consistent with regulations, limitations, or restrictions. T F

TRUE

FALSE

12. A statement of cash flows is to be presented in general-purpose external financial statements by which of the following?

Publicly held business enterprises only.

Privately held business enterprises only.

All business enterprises.

All business enterprises and not-for-profit organizations.

13. According to SFAS 116, Accounting for Contributions Received and Contributions Made, what classification(s), if any, should be used by not-for-profit organizations to report receipts of contributions?

Neither Unrestricted Support nor Restricted Support

Restricted Support but not Unrestricted Support

Unrestricted Support but not Restricted Support

Both Unrestricted Support and Restricted Support

14. Which of the following nongovernmental not-for-profit organizations must report information about expenses by natural classification?

Voluntary health and welfare organizations (VHWOs).

- Private hospitals.
- Colleges and universities.
- "Other" not-for-profit organizations.

### Chapter 3 - Cost-Volume-Revenue Analysis: Are We Breaking Even?

15. Revenue minus variable costs is called

- Opportunity revenue.
- Gross margin.
- Contribution margin.
- Safety margin.

16. Cost-volume-revenue (CVR) is used to analyze

- The behavior of some costs and revenues as changes in units of service occur.
- The behavior of total costs, total revenues, and surplus as changes in units of service occur.
- A single revenue driver and multiple cost drivers in special case cvr.
- Multiple revenue drivers and a single cost driver in special case cvr.

17. Some nonprofit entities may have only fixed source of revenue, typically a government budget appropriation. In this case, the break-even formula becomes

- $(\text{Fixed revenue} - \text{Fixed costs}) / \text{Unit variable cost},$
- $(\text{Fixed costs} - \text{Fixed revenue}) / \text{Unit CM},$
- $(\text{Expected level Break even level}) / \text{Expected level},$
- $\text{Fixed costs} / \text{Unit CM},$

## Chapter 4 - Financial Analysis and Metrics: Avoiding Bankruptcy

18. The average accounting age of equipment may be computed as

- Accumulated depreciation divided by depreciation expense.
- Depreciation expense divided by total assets.
- Accumulated depreciation divided by total assets.
- Depreciation expense divided by book value.

19. Measures of performance (or metrics) for a college include number of courses and ratio of faculty to students. T F

TRUE

FALSE

20. In analyzing the Statement of Activities for NPOs, determine:

- Whether the NPO is self-sustaining and operating well.
- If service efforts are being successful.
- Whether management has discharged its stewardship responsibilities.
- All of the above.

## Chapter 5 - Forecasting: Revenues, Costs, and Cash Flows

21. Cash flow forecasting can serve a number of goals, including

- Avoidance of financial distress or bankruptcy.
- Escape from costly mistakes such as ill-conceived ventures.
- Aid in cash management and control.
- All of the above.

22. The table t value, based on a degree of freedom and a level of

significance, is used

- To set the prediction range -- upper and lower limits -- for the predicted value of the dependent variable.
- As a cutoff value for the t-test.
- Both of the above.
- None of the above.

23. In exponential smoothing, the optimal smoothing constant  $\alpha$  may be picked by minimizing the

- Mean squared error (MSE).
- Standard deviation.
- Coefficient of determination.
- Moving average.

24. Multiple regressions involve

- One independent variable.
- Two independent variables.
- More than one independent variable.
- More than one dependent variable.

25. Which one of the following is a qualitative forecasting technique?

- Simple regression.
- Moving average.
- Trend analysis.
- Delphi method.

26. The equation(s) required for applying the least-squares method could be expressed as

- $\sum Y = na + b\sum X$   $\sum Y = na + b\sum X$ .

$$y = a + bx^2.$$

$$\text{SUM}xy = a\text{SUM}x + b\text{SUM}x^2.$$

$$\text{SUM}y = na + b\text{SUM}x. \text{SUM}xy = a\text{SUM}x + b\text{SUM}x^2.$$

## Chapter 6 - The Budgeting Process: Device for Planning and Control

27. A childcare center can care for 50 children. The expected number of students is 70%. The center operates 48 weeks a year. It is open 40 hours a week. The hourly rate is \$5. The budgeted gross revenue is

\$258,000.

\$310,000.

\$336,000.

\$410,000.

28. The journal entry for a purchase order is to

Debit expenditures.

Debit encumbrances.

Debit reserve for encumbrances.

Debit cash.

29. Which type of budget relates the inputs of resources to the output of services?

Performance budget.

Line item budget.

Incremental budget.

Zero base budget.

30. The line item budget lists the sources of revenue and categories of expenses (object accounts). T F



TRUE

FALSE

31. Which type of budget starts fresh each year and all activities (new and old) must be justified?

Zero-base budget.

Performance budget.

Incremental budget.

Program budget.

32. Which budget lists and describes planned capital acquisitions and improvements?

Zero base.

Incremental.

Performance.

Capital.

## **Chapter 7 - Zero-Base Budgeting and Program Budgeting**

33. Zero base budgeting requires managers to justify each budget line item.

T F

TRUE

FALSE

34. ZBB is a continual process. Each manager must justify his budget request in detail from a zero base. T F

TRUE

FALSE

35. Programs may be considered either direct or support. T F

TRUE

FALSE

36. Under program budgeting, a project should be broken down by major activity or task, and then further segregated into subactivities. T F

TRUE

FALSE

### Chapter 8 - Cost Behavior, Cost Control, and Flexible Budgeting

37. Determine the material quantity variance using actual production of 100 units of output, 3 pieces allowed per unit, actual price of \$2 per piece, and standard price of \$3 per piece. Assume the company used 240 pieces of material.

\$120.

\$180.

\$ 60.

\$100.

38. The cost-volume formula would be expressed as

$y = a + b\text{SUM}x.$

$y = ax + b.$

$y = ax.$

$y = a + bx.$

39. An understanding of cost behavior is helpful

For break even and cost volume revenue analysis.

For pricing of services and products.

Establishing bid prices on contracts and proposals.

All of the above.

40. Marie Welfare Agency incurred a total cost of \$8,600 to provide 40 units of service. Each unit of service required 5 direct labor hours to complete. What are the total fixed costs if the variable cost was \$15 per direct labor-hour?

1,700.

2,600.

4,100.

5,600.

41. Unfavorable labor efficiency variances may be explained by poor supervision, poor quality workers, poor quality of materials requiring more labor time, and employee unrest. T F

TRUE

FALSE

## Chapter 9 - Enhancing Managerial and Department Performance

42. The contribution approach is one method under which center concept?

Mission.

Investment.

Cost.

Service.

43. Output indicators or control surrogates of welfare and rehabilitation agencies include

Percent of successful treatment.

Better child care.

Rate of recidivism.

All of the above.

44. Responsibility centers of nonprofit organizations can be viewed as either mission centers or service centers. T F

TRUE

FALSE

45. Allocated general fixed costs

Can make a program appear to be financially viable when it may not be.

Are always incremental costs.

Are always relevant in decisions involving dropping of a program or project.

None of the above.

## Chapter 10 - Obtaining Funds: Short-Term and Long-Term Financing

46. The opportunity cost associated with failing to pay a vendor on terms of 2/10, net/30 is

25.3%.

10.8%.

41%.

36.7%.

47. An NPO has received donations in 20X5 of \$250,000 and in 20X4 of \$280,000. The estimated amount of donation for 20X6 based on a simple average is.

\$390,000.

\$245,000.

\$280,000.

\$265,000.

48. A telephone bill is an example of a

- Fixed cost.
- Variable cost.
- Semi-variable cost.
- Sunk cost.

49. An NPO borrows \$500,000 for one year at a 10% interest rate. There is a 5% compensating balance. The interest and compensating balance are deducted at the time of the loan to arrive at the loan proceeds. The effective interest rate is

- 11.1%.
- 10%.
- 9.6%.
- 11.7%.

### **Chapter 11 - Managing Working Capital and Investing Surplus Funds**

50. Short-term notes issued by the U.S government are called

- Warrant.
- Commercial paper.
- Treasury bill.
- Bond.

51. Factors to be considered in investment decisions for nonprofit financial managers are

- Safety of principal.
- Stability of income.
- Maturity.

All of the above.

52. Financial securities cover a broad range of investment instruments, excluding

Stocks, common and preferred.

Real estate.

Bonds.

Options.

53. Which one of the following is a cash management model?

Baumol's model.

Miller Orr model.

Both of the above.

None of the above.

54. The agency should not take advantage of a cash discount offered for early payment because failing to do so results in a low opportunity cost. T F

TRUE

FALSE

55. With leveraged derivatives, when you win, you win big. But when you lose, you lose big. T F

TRUE

FALSE

## Chapter 12 - Cost Management and Pricing Decisions

56. Allocating the service center costs to the mission centers may be accomplished by one of the following procedures

The high-low method .

Step-down (two-stage) method .

Activity-based costing.

None of the above.

57. Benefits from an ABC system are numerous from the standpoint of planning, control, and decision-making. They include

Improved product or service cost data.

Cost reduction by eliminating the activities that do not add value.

Both of the above.

None of the above.

58. A proper cost driver for employee insurance would be

Square footage of space.

Pound of supplies.

Direct labor dollars.

Number of claims filed.

59. In an effort to enhance product or service costing accuracy, activity-based costing (ABC) uses a larger number of cost drivers than the one or two volume-based cost drivers typical in a conventional system. T F

TRUE

FALSE

60. Allocation of support department costs to the mission departments is necessary to

Control costs.

Determine prices for service rendered.

Maximize efficiency.

Measure use of plant capacity.

61. The step-down method of support department cost allocation often begins

with allocation of the costs of the support department that

- Provides the greatest percentage of its support to the mission departments.
- Provides the greatest percentage of its support to other support departments.
- Provides the greatest total output of support.
- Has the highest total costs among the support departments.

### Chapter 13 - Analysis for Short-Term and capital expenditure decisions and Financial Modeling

62. An initial investment of \$20,000 generates annual benefits of \$8,000. The payback period is

- 2.5.
- 2.
- 4.
- 3.

63. The make or buy decision must be investigated, along with the broader perspective of considering how best to utilize available facilities. The alternatives are

- Leaving facilities idle.
- Outsourcing and renting out idle facilities .
- Outsourcing and using idle facilities for other services.
- All of the above.

64. An agency can either purchase a mini-computer for \$61,000 or lease it at an annual \$13,000 payment and own it after five years. The anticipated discount rate will be 8 percent. The present value of \$13,000 a year for five years at 8% is

- 51,909.
- 61,000.
- 9,901.



None of the above.

65. Applications and uses of financial models include

Risk analysis.

"What-if" analysis.

Both of the above.

None of the above.

66. In a make or buy decision

Only the variable costs are relevant.

Both the variable costs and the fixed costs which will continue regardless of the decision are relevant.

Both the variable costs and the fixed costs which are avoidable are relevant.

None of the above.

67. One of the popular financial modeling software used by hospitals is HOFPLAN. T F

TRUE

FALSE

68. The present worth of future sums of money is

Future value.

Present value.

Past value.

Limited value.

69. A method of evaluating investment projects does not include

Payback period.

- External index.
- Internal rate of return (IRR).
- Net present value (NPV).

70. An annuity is a series of payments of a fixed amount for

- A specified number of periods.
- For one-time period.
- For an indeterminable period.
- For an unspecified number of periods.

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