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FINAL EXAM

Course # 171010
Techniques of Financial Analysis, Modeling

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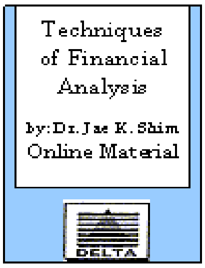
Techniques of Financial Analysis, Modeling, and Forecasting
by: Dr. Jae K. Shim, Ph.D., 2003, 334 pages



20 CPE Credit Hours
Accounting & Auditing

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Chapter 1 - Break-Even And Contribution Margin Analysis

1. Fixed costs are $60,000 and variable costs are 40% of sales. Break-even sales equals:
   - [ ] $150,000
   - [ ] $100,000
   - [ ] $ 50,000
   - [ ] $ 80,000

2. You sell a product at $20 per unit with variable costs of $5 per unit and total fixed costs of $30,000. The after-tax profit is $120,000 and the tax rate is 40%. How many units must be sold to earn the after-tax profit?
   - [ ] 15,333
   - [ ] 8,000
   - [ ] 1,000
   - [ ] 2,500

3. At the breakeven point, the contribution margin equals total
   - [ ] Variable costs.
   - [ ] Sales revenues.
   - [ ] Selling and administrative costs.
   - [ ] Fixed costs.

4. Cost-volume profit relationships that are curvilinear may be analyzed linearly by considering only
   - [ ] Fixed and semivariable costs.
   - [ ] Relevant fixed costs.
   - [ ] Relevant variable costs.
   - [ ] A relevant range of volume.

5. When an organization is operating above the breakeven point, the degree of amount that revenues may decline before losses are incurred is the

- [ ] Residual income rate.
- [ ] Marginal rate of return.
- [ ] Margin of safety.
- [ ] Target (hurdle) rate of return.

6. The breakeven point in units increases when unit costs

- [ ] Increases and sales price remains unchanged.
- [ ] Decrease and sales price remains.
- [ ] Remain unchanged and sales price increases.
- [ ] Increase and sales price increases.

7. Cost-volume-profit analysis assumes over the relevant range that

- [ ] Total costs are linear.
- [ ] Fixed costs are nonlinear.
- [ ] Variable costs are nonlinear.
- [ ] Selling prices are nonlinear.

8. Cost-volume-profit analysis assumes that over the relevant range

- [ ] Variable costs are nonlinear.
- [ ] Fixed costs are nonlinear.
- [ ] Selling prices are unchanged.
- [ ] Total costs are unchanged.

9. The relevance of a particular cost to a decision is determined by the

- [ ] Potential effect on the decision.

- [ ] Size of the cost.
- [ ] Riskiness of the decision.
- [ ] Accuracy and verifiability of the cost.

Chapter 2 - Understanding And Applying The Time Value Of Money Concept

10. The present value of an annuity of $1 table is used to determine a future value. T F

- [ ] True
- [ ] False

11. Which table has the highest factor?

- [ ] Present value of $1
- [ ] Future value of $1
- [ ] Present value of an annuity of $1
- [ ] Future value of an annuity of $1

12. You take out a mortgage today and will make equal monthly payments over 10 years at a specified interest rate. Which table would be used to solve this problem?

- [ ] Present value of $1
- [ ] Future value of $1
- [ ] Present value of an annuity of $1
- [ ] Future value of an annuity of $1

13. The present value of a $1 table is used to determine a future value. T F

- [ ] True
- [ ] False

Chapter 3 - How To Assess Capital Expenditure Proposals For Strategic Decision Making

14. The rate of return earned on a proposal such that the present value of cash inflows equals the present value of cash outflows is derived from the profitability index.

    ☐ True

    ☐ False

15. A graphic description of the sequence of possible outcomes is referred to as:

    ☐ Simulation

    ☐ Decision tree

    ☐ Sensitivity analysis

    ☐ Capital budgeting

16. An initial investment of $20,000 generates annual cash inflows of $8,000. The payback period is:

    ☐ 2.5

    ☐ 2

    ☐ .4

    ☐ 3

17. The rate of return earned on a proposal such that the present value of cash inflows equals the present value of cash outflows is derived from the internal rate of return method. T F

    ☐ True

    ☐ False

18. The capital budget is a (n)

    ☐ Plan to insure that there are sufficient funds available for the operating needs of the company.

    ☐ Exercise that sets the long-range goals of the company including the consideration of the company including the consideration of external influences.

- [ ] Plan that coordinates and communicates a company's plan for the coming year to all departments and divisions.
- [ ] Plan for the best selection and financing of long-term investment proposals.

19. Capital budgeting techniques are least likely to be used in evaluating the

- [ ] Acquisition of new aircraft by a cargo company.
- [ ] Design and implementation of a major advertising program.
- [ ] Adoption of a new method of allocating nontraceable costs to product lines.
- [ ] Sale by a conglomerate of an unprofitable division.

20. The capital budgeting model that is ordinarily considered the best model for long-range decision making is the

- [ ] Payback model.
- [ ] Accounting rate of return model.
- [ ] Unadjusted rate of return model.
- [ ] Net present value model.

21. The internal rate of return (IRR) is the

- [ ] Hurdle rate.
- [ ] Rate of interest for which the net present value is greater than 1.0.
- [ ] Rate of interest for which the net present value is equal to zero.
- [ ] Accounting rate of return.

Chapter 4 - Analyzing Financial Statements For Financial Fitness

22. The ratio of cash plus marketable securities plus accounts receivable divided by current liabilities is called:

- [ ] Current ratio
- [ ] Quick ratio

- [ ] Working capital ratio
- [ ] Cash flow ratio

23. The earnings per share is computed for:

- [ ] Common stock
- [ ] Nonredeemable preferred
- [ ] Redeemable preferred
- [ ] Common stock and fully diluted preferred stock

24. An increase in the current ratio while the quick ratio remains constant means a buildup in:

- [ ] Cash
- [ ] Long-term debt
- [ ] Current liabilities
- [ ] Inventory

25. Using financial leverage is a good financial strategy from the viewpoint of stockholders of companies having:

- [ ] A high debt ratio
- [ ] Cyclical highs and lows
- [ ] Steady or rising profits
- [ ] A steadily declining current ratio

26. The price/earnings ratio:

- [ ] Measures the past earning ability of the firm
- [ ] Is a gauge of future earning power as seen by investors
- [ ] Relates price to dividends
- [ ] Relates price to total net income

27. What type of ratio is earnings per share?

- [ ] Profitability ratio.
- [ ] Activity ratio.
- [ ] Liquidity ratio.
- [ ] Leverage ratio.

28. A measure of long-term debt-paying ability is a company's

- [ ] Length of the operating cycle.
- [ ] Return on assets.
- [ ] Inventory turnover.
- [ ] Times interest earned.

Chapter 5 - Analyzing Quality Of Earnings

29. An increasing trend in audit fees may indicate a problem with:

- [ ] Internal control
- [ ] Accounting estimates
- [ ] Book income vs. Taxable income
- [ ] Discretionary costs

30. Quality of earnings is improved when a company has a high degree of estimated expenses. T F

- [ ] True
- [ ] False

Chapter 6 - Analysis Of Variance Analysis For Cost Control

31. 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

32. Return on investment is one method under which center concept?

- [ ] Revenue center
- [ ] Investment center
- [ ] Cost center
- [ ] Profit center

33. Which one of the following budgeting methodologies would be most appropriate for a firm facing a significant level of uncertainly in unit sales volumes for next year?

- [ ] Top-down budgeting.
- [ ] Life-cycle budgeting.
- [ ] Static budgeting.
- [ ] Flexible budgeting.

34. Which of the following is a purpose of standard costing?

- [ ] Determine breakeven production level.
- [ ] Control costs.
- [ ] Eliminate the need for subjective decisions by management.
- [ ] Allocate cost with more accuracy.

35. An efficiency variance equals

- A flexible budget amount minus a static budget amount.
- Actual operating income minus flexible budget operating income.
- Actual unit price minus budgeted unit price, times the actual units produced.
- Budgeted unit price times the difference between actual inputs and budgeted inputs for the actual activity level achieved.

36. Which of the following factors should not be considered when deciding whether to investigate a variance?
    - Magnitude of the variance and the cost of investigation.
    - Trend of the variances over time.
    - Likelihood that an investigation will eliminate future occurrences of the variance.
    - Whether the variance is favorable or unfavorable.

37. Which department is customarily held responsible for an unfavorable materials usage variance?
    - Quality control.
    - Purchasing.
    - Engineering.
    - Assembly.

38. The least complex segment or area of responsibility for which costs are allocated is a(n)
    - Profit center.
    - Investment center.
    - Contribution center.
    - Cost center.

39. Responsibility accounting defines an operating center that is responsible for revenue and costs as a(n)
    - Profit center.

Revenue center.

Division.

Operating unit.

40. Decentralized firms can delegate authority and yet retain control and monitor managers' performance by structuring the organization into responsibility centers. Which one of the following organizational segments is most like an independent business?

Revenue center.

Profit center.

Cost center.

Investment center.

Chapter 7 - Analysis Of Segmental Performance And Profit Variance

41. The sales price variance equals:

(Actual selling price vs. Budgeted selling price) x budgeted units sold

Actual selling price x budgeted units sold

(actual selling price vs. Budgeted selling price) x actual units sold

Actual selling price vs. Budgeted selling price

42. The sales volume variance equals: (actual quantity vs. budgeted quantity) x actual selling price.

False

43. The sales mix variance equals: (actual quantity vs. budgeted quantity) x actual selling price.

True

False

Chapter 8 - Evaluating Divisional Performance

44. A company's net income is $1,500,000, total assets are $5,000,000, sales are $4,000,000, and the minimum rate of return is 10%. Residual income equals:

- [ ] $3,500,000
- [ ] $1,000,000
- [ ] 80%
- [ ] $1,100,000

45. Residual income is a better measure for performance evaluation of an investment center manager than return on investment because

- [ ] The Problems associated with measuring the asset base are eliminated.
- [ ] Desirable investment decisions will not be neglected by high-return divisions.
- [ ] Only the gross book value of assets needs to be calculated.
- [ ] The arguments about the implicit cost of interest are eliminated.

Chapter 9 - Analyzing Working Capital

46. If usage per month is 100 units, economic order quantity is 20, cost per order is $35, and carrying cost per unit is $12, the total order cost is:

- [ ] $60
- [ ] $3,500
- [ ] $175
- [ ] $1,200

47. The added profitability generated from giving credit to marginal customers is the:

- [ ] Contribution margin
- [ ] Gross margin
- [ ] Opportunity cost

☐ Sales obtained

48. "Mail float" is how long it takes for a check to go from payor to receiver.

☐ True

☐ False

Chapter 10 - Corporate Investments

49. A stock that does not have a track record of high earnings and dividends is referred to as:

☐ Income

☐ Growth

☐ Speculative

☐ Defensive

50. Stock selection based on studying trends in charts of volume and price of a security is referred to as:

☐ Fundamental analysis

☐ Breadth index

☐ Moving average

☐ Technical analysis

51. A put option is an option to buy a security at a stipulated price during a stated time period. T F

☐ True

☐ False

52. The return on investment typically comes from two sources: ___________ and capital gains (losses).

☐ liquidity

☐ selling price

☐ purchase price

☐ current income

53. As a measure of relative risk, we use the

☐ Coefficient of variation

☐ Holding period of return

☐ Standard deviation

☐ Geometric return

54. Assume that the risk?free rate (rf) is 8% and the expected return for the market (rm) is 12%. If beta is 2.0, the required rate of return on a security is

☐ 8%

☐ 10%

☐ 12%

☐ 16%

55. A call option is an option to buy a security at a stipulated price during a stated time period. T F

☐ True

☐ False

56. Standard deviation divided by average net income is called:

☐ Beta

☐ Instability index of earnings

☐ Elastic demand

☐ Coefficient of variation

Chapter 11 - Obtaining Funds: Short-Term And Long-Term Financing

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

- [ ] 36.7%
- [ ] 25.3%
- [ ] 10.8%
- [ ] 41%

58. Unsecured short-term notes issued by the highest quality companies is called:

- [ ] Finance company loan
- [ ] Commercial paper
- [ ] Warrant
- [ ] Bond

59. A continuing agreement for loans up to a specified amount is referred to as line of credit.

- [ ] True
- [ ] False

Chapter 12 - Analyzing Mergers And Acquisitions

60. A merger of two companies in unrelated industries is what type of combination?

- [ ] Vertical
- [ ] Level
- [ ] Conglomerate
- [ ] Horizontal

61. A holding company's only purpose is to buy the securities of other companies. T F

- [ ] True

☐ False

Chapter 13 - Forecasting And Financial Planning

62. Who does not use forecasts?

☐ Assembly worker

☐ Top management

☐ Marketing manager

☐ College administrator

63. Production planners need forecasts in order to determine the level of advertising expenses. T F

☐ True

☐ False

64. Which one of the following is a sales forecasting technique?

☐ Linear programming (LP).

☐ Delphi.

☐ Queuing theory.

☐ Economic order quantity (EOQ).

65. Qualitative forecasting techniques do not include

☐ Expert opinion.

☐ Regression analysis.

☐ Sales force polling.

☐ Consumer survey.

66. The ultimate objective of forecasting is to

- Produce accurate results.
- Be cost effective.
- Reduce risk in the decision-making process.
- Use sophisticated methods.

Chapter 14 - Forecasting Methododology

67. Exponential smoothing uses averages that are updated as new information is received.
    - True
    - False

68. Which of the following methods involves an extensive use of monthly historical data for estimating budget activities?
    - Time series analysis
    - Market research
    - Linear programming
    - The Delphi technique

69. Classical decomposition of time series deals with:
    - seasonal
    - cyclical
    - trend
    - all of the above

Chapter 15 - Forecasting With Regression And Markov Methods

70. The use of multiple independent variables usually increases the proportion of the variation in the dependent variable explained by the cost prediction equation.

☐ True

☐ False

71. Mount Company incurred a total cost of $8,600 to produce 40 units of pulp Each unit of pulp required 5 direct labor hours to complete. What is the total fixed costs if the variable cost was $15 per direct labor-hour?

☐ $1,700

☐ $2,600

☐ $4,100

☐ $5,600

72. The letter y in the standard regression equation of y = a + bx is best described as the:

☐ Dependent variable.

☐ Constant coefficient.

☐ Independent variable.

☐ Variable cost coefficient.

73. Sales forecasts are usually more reliable, especially if fluctuations in certain economic indicators precede fluctuations in the company sales, if certain relationships exist. One measurement tool used to examine the relationship between sales and economic indicators is known as

☐ Correlation.

☐ Cycle projection.

☐ Trends analysis.

☐ Regression.

74. In regression analysis, which of the following correlation coefficients represents the strongest relationship between the independent and dependent variables?

☐ 1.03

☐ -.02

☐ -.89

☐ .75

75. The coefficient of determination between direct materials cost and units produced is nearest

☐ −0.75

☐ 0.50

☐ 0.0

☐ 1.00

Chapter 16 - Financial Forecasting And Budgeting Tools

76. Zero-base budgeting requires managers to:

☐ Justify expenditures that are increases over the prior period's budgeted amount

☐ Justify all expenditures, not just increases over last year's amount

☐ Maintain a full-year budget intact at all times

☐ Maintain a budget with zero increases over the prior period

77. Direct material purchases equal

☐ Usage plus production needs.

☐ Production needs plus target ending inventories.

☐ Beginning inventories plus production needs.

☐ Usage plus desired ending inventories less beginning inventories.

78. The major steps in preparing the budget are:

☐ Prepare a sales forecast.

☐ Determine expected production volume.

☐ Estimate manufacturing costs and operating expenses.

☐ All of the above

79. The percent-of-sales method of forecasting is based on which of the following assumptions?

☐ All balance sheet accounts are tied directly to sales.

☐ Most balance sheet accounts are tied directly to sales.

☐ All income statement accounts are stable.

☐ Answers a and c above.

80. The master budget process usually begins with the

☐ Production budget.

☐ Operating budget.

☐ Financial budget.

☐ Sales budget.

81. Which of the following is normally included in the financial budget of a firm?

☐ Direct materials budget.

☐ Selling expense budget.

☐ Pro forma balance sheet.

☐ Sales budget.

82. All of the following are considered operating budgets except the

☐ Cash budget.

☐ Materials budget.

☐ Production budget.

☐ Capital budget.

Chapter 17 - Forecasting Cash Flows

83. A retailer is attempting to estimate the allowance for doubtful accounts. The probabilities of these doubtful accounts follow a transition process over time. The most effective technique to analyze the problem is

- [ ] EOQ Model.
- [ ] Queuing theory.
- [ ] Network analysis.
- [ ] Markov approach.

Chapter 18 - How To Use Corporate Planning Models

84. Fewer companies are using corporate planning models for business strategy formulation.

- [ ] True
- [ ] False

85. Among the reasons cited by companies for using planning models was (were):

- [ ] International competition
- [ ] Ample resources
- [ ] Peer pressure
- [ ] All of the above

86. An integrated planning model consists of

- [ ] Marketing, production, and financial models
- [ ] Marketing, macroeconomic, and financial models
- [ ] Personnel, marketing, and microeconomic models
- [ ] None of the above

Chapter 19 - Financial Modeling For "What-If" Analysis

87. A financial model is a system of equations that describes the relationships among financial and operating variables. T F

☐ True

☐ False

88. Applications and uses of financial models include:

☐ Risk analysis

☐ Cash budgeting

☐ New product analysis

☐ All of the above

89. An example of definitional equations is:

☐ Q=a - bP

☐ TAX = 0.35*INCOME

☐ Assets = Liabilities + Equity

☐ All of the above

90. Which of the following represents the best reason for “what-if” (sensitivity) analysis when preparing master budgets?

☐ Reconcile long-term estimates with short-term realities

☐ Recognize uncertainty surrounding projections

☐ Lend credibility to estimated values

☐ Detect erroneous projections

91. Spreadsheet software is widely used for modeling purposes.

☐ True

☐ False

Chapter 20 - Using Optimization Techniques To Build Optimal Budgets

92. In developing an optimal budget, linear programming (LP) is more effective than goal programming in that it handles multiple, conflicting goals of management.

☐ True

☐ False

93. Ideally, optimization models should include performance variables such as

☐ ROI

☐ Labor productivity

☐ Balance sheet

☐ All of the above

94. The disadvantage with using optimization models is

☐ Computational difficulty

☐ Lack of quantitative skills

☐ Presence of multiple objectives

☐ None of the above

95. Which of the following methods is the most suitable for planning product mix when complex product problems are involved?

☐ EOQ

☐ Linear programming

☐ Simultaneous equations

☐ Sensitivity analysis

96. In developing an optimal budget, goal programming is more effective

than linear programming (LP) in that it handles multiple, conflicting goals of management.

- [ ] True
- [ ] False

Chapter 21 - Using Spreadsheet And Financial Modeling Packages

97. The bankruptcy prediction model can help for:

- [ ] Auditing analysis
- [ ] Merger and investment analysis
- [ ] Loan credit analysis
- [ ] All of the above

98. A “Z-score" of 3.2 means a high probability of corporate failure. T F

- [ ] True
- [ ] False

Chapter 22 - Using Management Games For Executive Training

99. Management games are a form of simulation where one goal is to improve decision making. T F

- [ ] True
- [ ] False

100. Inputs of a typical executive game are:

- [ ] Balance sheet and cash flow statements
- [ ] Economic and purchasing data
- [ ] Historical game and economic data and team decisions

☐ None of the above

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