



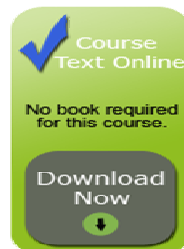
FINAL EXAM

Course # 171013 Financial Forecasting: Tools and Applications

based on the electronic .pdf file(s):

Financial Forecasting: Tools and Applications

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pages



15 CPE Credit Hours
Accounting & Auditing

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Instructions are provided at the end of this document.*

Chapter 1 - Forecasting and Managerial Planning

1. The ultimate objective of forecasting is to

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

2. Financial forecasts do not include.

- Earnings forecasts.
- Cash flow forecasts.
- Health care service.
- External financing need.

3. A financial forecast involves prediction of

- Inventory level.
- Cash flows.
- Materials purchases.
- Sales.

4. In order for hospital managers of nonprofit institutions to make health care forecasts they must make projections of

- Disposable income of population.
- The changes in the number of people in various age groups.
- The varying medical needs gender groups will have.
- The change in the number of people using WebMD.

5. Sales forecasts are especially crucial aspects of many financial activities. T F

- True
- False

6. Which of the following is a qualitative approach to forecasting?

- Delphi technique
- Exponential smoothing
- Trend analysis
- Decomposition of time series

Chapter 2 - Forecasting, Planning, and Business Valuation

7. In developing a comprehensive budget for a manufacturing company, which one of the following items should be done first?

- Development of a sales plan.
- Determination of manufacturing capacity.
- Development of the capital budget.
- Preparation of a pro forma income statement.

8. 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.
- Find the best course of action.
- Lend credibility to estimated values.
- Detect erroneous projections

9. Forecasting tries to

- Neutralize hedge.
- Minimize uncertainty or risk about the future.
- Minimize costs.
- Maximize welfare.

10. XYZ Company has the following year-end expected profits in each of the next three years: \$30,000, \$90,000, and \$120,000. Then it shut downs. Assuming a 10 percent interest rate, the value of the firm is

- 27270
- 74340
- 191370
- 90120

11. A budget is a set of dependent and independent variables. T F

- True

False

12. _____ is not a factor in business valuation

Intrinsic value of an asset.

Expected future cash flows.

Future earning power.

Investor's required rate of return.

Chapter 3 - Moving Averages and Smoothing Methods

13. Which of the following is not true about naïve forecasting models

Use historical observation of sales.

Explain the underlying casual relationships among variables.

Forecast complex variables such as earnings.

Use simple models.

14. Which method is used to develop a simple model that assumes that the most recent period is the best predictor of the future?

Naïve.

Moving average.

Most recent actual value.

Exponential smoothing.

15. Which method uses the mean (or average) for a specified set of values to forecast the next period?

Naïve.

Moving average.

Simple average.

Exponential smoothing.

16. Which method continually revises a forecast in the light of more recent experience?

Naïve.

Moving average.

Simple average.

Exponential smoothing.

Chapter 4 - Regression Analysis

17. The following computer printout was generated using the least squares method for use in estimating sales: Slope 74 Intercept 16600 Correlation coefficient .95 Independent variable Advertising The sales forecasting equation would be
- $\$16,600 + (\$74 \times .95)$.
 - $\$16,600 \times .95$.
 - $\$16,600 + \$74X$.
 - $\$16,600 - \$74X$.
18. The following computer printout was generated using the least squares method for use in estimating sales: Slope 74 Intercept 16600 Correlation coefficient .95 Independent variable Advertising An estimate of sales if an advertising expense is \$100 would be
- 24800
 - 24000
 - 16600
 - 15770
19. The following computer printout was generated using the least squares method for use in estimating sales: Slope 74 Intercept 16600 Correlation coefficient .95 Independent variable Advertising What percentage change in sales can be explained by changes in advertising?
- 100%.
 - 95%.
 - 90.25%.
 - 89%.
20. Given $Y = 10.5836 + 0.5632 X$ where $X =$ advertising, assume that the advertising of \$10 is to be expended for the next year, the projected sales for the next year would be computed as
- 10.5836
 - \$20, 651.
 - 6200
 - \$16.2156.
21. If the independent variable is production volume and the dependent variable is cost, a coefficient of determination of .89 indicates
- 89 percent of the change in volume is caused by changes in cost.
 - Costs will change by 89% of the change in volume.
 - 89 percent of the change in cost can be explained by the change in volume.
 - 89 percent of the costs is caused by volume.
22. Table t value, based on a degree of freedom and level of significance, is not used
- To set predictive rage - upper and lower limits.
 - As a substitute to the F-test.

To set the confidence range for regression coefficients.

As a cut off value for the t-test.

Chapter 5 - Multiple Regression

23. Multiple regression analysis is used to

Find the overall association between the dependent variable and explanatory variables.

Identify factors that influence the independent variable.

Use as a basis for providing sound forecasts of the dependent variables.

(A) and (C)

24. When it is difficult to assume that a linear relationship exists between lagged advertising budgets and sales because of the diminishing returns effect of accumulated advertising, a more appropriate relationship is considered to be

Nonlinear relationship.

Dual relationship.

Autonomous relationship.

Multi sequential relationship.

25. Dummy variables that can improve accuracy of regression models do not include

Sex and marital status.

Age and race.

Location and product features.

Price.

26. When there is a high correlation between independent variables where these variables interfere with each other, then

Multicollinearity occurs.

Intra-regression occurs.

Linear regression occurs.

Unexplained differentiation occurs.

Chapter 6 - Time analysis and classical decomposition

27. In a time series analysis the most commonly recognized components do not include

Trend.

Seasonal.

Elevation.

Cycle.

28. The basic approach involved when using the classical decomposition method with quarterly sales data includes the following step(s) except

Compare with the regression result

Deseasonalize the data.

Develop the linear trend equation.

Forecast the sales for each of the four quarters of the coming year.

29. Trend analysis (linear and curvilinear) can effectively be used

For seasonal situations.

When the company has no data.

For cyclical situations.

To forecast stock prices.

Chapter 7 - Forecasting with No Data and Long Range Forecasting

30. Which of the following is not categorized in the stages in the life cycle of a typical new product?

Introduction.

Decay

Maturity

Saturation.

31. Choosing the right growth model gives the best starting point when forecasting with no data. You should not consider

Modified exponential model that generates the best case scenario.

Naïve forecasting model.

Exponential model that generates the worst case scenario.

The linear model that represents middle-ground possibilities.

Chapter 8 - Indirect Methods

32. The Markov Model is based on the assumption that

Consumer behavior is unpredictable.

- Consumption is a form of learned behavior.
- Consumers tend to change certain products and brands.
- Consumer market research is unreliable..

33. Input-output analysis is an indirect method concerned with

- State and federal government consumption only.
- Inter-industry or interdepartmental flow of goods or services.
- Wholesale and retail historical data.
- Manufacturers and developers future trends.

34. Market survey techniques are important forecasting tools, especially for

- Long-term forecasts.
- Production forecasts.
- Sales forecasts.
- Short-term forecasts.

35. Which of the following variables is not a driving force of sales?

- Price.
- Time.
- Advertising.
- Income.

36. The Markov model is developed so as to predict market share by considering consumer brand loyalty and switching behaviors. T F

- True
- False

37. Market surveys involve the use of interviews or mailed questionnaires asking about future plans. T F

- True
- False

Chapter 9 - Evaluation of Forecasts

38. The Theil U statistic is based upon a comparison of the predicted change with the

- Observed change.
- Absolute change.
- Extrapolated change.

Fundamental change.

39. Forecasting control can be accomplished by comparing forecasting errors to predetermined values or limits. Errors that fall within the limits would be acceptable while errors outside of the limits would signal

Continue using the model.

That corrective action is desirable.

An upward trend.

A downward trend.

Chapter 10 - What is the right forecasting tool and software for you?

40. Forecasting methodology may be ranked by

Accuracy: why do you need the forecast? And data: how much data are available?

Cost: how much money is involved?

Timing: when will the forecast be used?

All of the above.

Chapter 11 - Sales and Revenue Forecasting

41. _____ is not a qualitative and subjective method of predicting economic activity or some particular phase of it.

Current Business Survey.

Surveys of business executives' intentions on what to spend on plant and equipment.

Surveys of consumers' finances, buying plans, and confidence.

Surveys of business plans regarding inventory changes.

42. The combination methods of sales forecasting is of limited value to

Short-term sales forecasting.

Medium-term sales forecasting.

Long-term sales forecasting.

Continuous sales forecasting.

Chapter 12 - Forecasting the Economy

43. Economic forecasting is typically concerned with predicting future values, with the exception of

Gross domestic products.

Sales.

Inflation.

Interest rates.

44. The Federal Reserve Bulletin contains all the following except.

Monetary data such as interest rates, bank reserves.

Political data.

Various statistics on commercial banks.

Data on international exchange rates.

Chapter 13 - Financial and Earnings Forecasting

45. The basic steps in projecting financial needs include all except

Project the firm's sales.

Project additional variables such as expenses.

Survey the competition.

Estimate the level of investment in current and fixed assets.

46. The types of functions that CPA's perform with respect to prospective financial statements that will be relied upon by third parties do not include

Examination.

Compilation.

Application of agreed upon procedures.

Implied weaknesses.

47. _____ is a prospective financial statement for general use upon which an accountant may appropriately report.

Financial forecast.

Financial projection.

Partial presentation.

Pro forma financial statement.

48. A financial forecast

Is based on the most pessimistic estimates.

Is based assumptions about conditions expected to exist and the course of action

expected to be taken, given one or more hypothetical (i.e., "what-if") assumptions.

Is based on assumptions about conditions actually expected to exist and the course of action expected to be taken.

May contain a range of estimates.

49. Given one or more hypothetical assumptions, a responsible party may prepare, to the best of its knowledge and belief, an entity's expected financial position, results of operations, and cash flows. Such prospective financial statements are known as

Full presentations..

Partial presentations.

Financial projections.

Financial forecasts.

50. Prospective financial information that omits either sales or gross revenues is considered to be a

Financial projection.

Forecasted balance sheet.

Partial presentation.

Financial forecast.

51. EPS projections are frequently made by independent security analysts such as the following except

Value Line investment survey.

IBES.

Earnings Almanac.

Zack's investment research.

52. The Sarbanes-Oxley Act of 2002 and the SEC now require companies that provide pro forma financial information to make sure that the information is not misleading. In addition, reconciliation between pro forma and _____ information is required.

IASB

GAAP

SOX Act

GAAS

Chapter 14 - Cashflow Forecasting

53. A forecast of cash collections and potential write offs of accounts receivable is essential in cash budgeting. T F

True

False

54. A more scientific approach to estimating cash collection percentages (or payment portions) is to

use

- CPA services.
- Abacuses.
- Lagged regression.
- Short-term sampling.

55. The Andrews Company sells a product for \$10. Budgeted sales for the first quarter of 20A are as follows Budgeted Sales January \$160,000 February 100,000 March 180,000 The company collects 70% in the month of sale and 25% in the following month. Five percent of all sales are uncollectible and written off. Budgeted cash receipts for March are

- 126000
- 151000
- 156000
- 205000

Chapter 15 - Analysis of Cost Behavior and Cost Prediction

56. An understanding of cost behavior is helpful for the following activities except for

- Transitional price hedging.
- Cost prediction.
- Break-even and contribution margin analysis.
- Flexible budgeting and short-term choice decisions.

57. All costs behave in the same way. T F

- True
- False

58. Examples of fixed costs do not

- Advertising expenses.
- Sales commissions.
- Depreciation.
- Property tax and insurance.

59. One popular method of estimating the cost function (cost-volume formula or flexible budget formula) is

- Extreme method.
- Simple regression analysis.
- Multiple distribution method.

Account analysis.

Chapter 16 - Bankruptcy Predictions

60. _____ is not used by the bankruptcy prediction model for

Auditing analysis.

Hedging.

Merger and investment analysis.

Legal analysis.

61. The "degree" to which a firm has current debt in excess of assets is the most common factor in bankruptcy. T F

True

False

62. The Degree of Relative Liquidity (DRL) is an alternative method of measuring the liquidity of a small business firm. T F

True

False

63. The Lambda Index is a ratio that focuses on

Components of liquidity and available credit.

Market value of common stock.

Perceived market position.

Beta.

Chapter 17 - Forecasting Foreign Exchange Rates

64. The primary reasons why it is necessary to forecast the foreign exchange rates do not include

Hedging decision.

Short term financing decision to borrow at low interest rates.

International capital budgeting decisions.

To engage in a bank a "kiting" operation.

65. Exchange rates today are floating and can easily vary as much as 5% within a week. . T F

True

False

66. The interest rate parity theory says the interest rate differential must equal the difference between the spot and forward rate. If the US interest rate is 10%, an identical investment yields 5%, the exchange rate is .7097 dollar per frank (Swiss). A \$100,000 invested in the US can earn $100,000 \times 10/2 = \$105,000$ in six months. The same investment today can purchase 140.905 francs ($100,000 / .7270$) and earn 144,428 francs. If the investor sold the francs at the exchange rate of .07270 the amount would be equal to

105000

101000

115000

99000

67. Four major ways of forecasting foreign exchange rates include all except

Fundamental forecasting.

Life Cycle forecasting

Market based forecasting.

Technical forecasting.

Chapter 18 - interest rate forecasting

68. _____ is not an independent variable used in interest rate forecasting?

Real economic activity.

Capacity utilization.

Credit demands by government and business.

Housing formation.

69. Today's supply and demand for credit determines today's short-term interest rate. T F

True

False

70. Judgments and expert opinions can help determine the future direction of interest rates. A quantitative evaluation is invariably more important than expert judgments, however. T F

True

False

Chapter 19 - Technological Forecasting

71. Technical forecasting is a discipline concerned with identifying struggling industries with declining products and services. T F

True

False

72. Intuition appears to play a very important role in exploratory technological forecasting. T F

True

False

73. The present state-of-the-art technology in technology forecasting can be characterized as

Quite accurate.

Numerous statistical studies leading to better understanding.

Estimates tend to be biased and error-ridden.

Having a full range of forecasting models.

Chapter 20 - Forecasting the 21st century

74. The passage of time should not witness

Advances in the quality of technical forecasting.

New developments in social sciences.

New developments in mathematics.

Less use of technological forecasting by better trained managers.

75. Which one of the following is not related to the future for forecasting?

Data mining.

Linear programming.

Supply chain management.

Business intelligence.

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