

Senior Financial Services

CFIN Unit I Test: Financial Fundamentals

Take Home: Due February 17, 2021 by 11:59pm

Name: _____

____ / 400

True or False? (3 Points Each)

EXTRA CREDIT: CORRECT FALSE STATEMENTS TO MAKE THEM TRUE

1. _____ The most common type of debt security is stock.
 2. _____ As more people desire a certain investment, its value will likely decrease.
 3. _____ You should review your personal financial plan at least once a year, and perhaps more often based on your personal situation.
 4. _____ Source of funds refers to the inflow of cash to a company; use of funds refers to the outflow of money by a company.
 5. _____ Government plays a significant role in every economic system.
 6. _____ In economics, capital resources are sometimes referred to as labor.
 7. _____ The availability of resources limits the supply of products and services.
 8. _____ The United States is a good example of a pure market economy.
 9. _____ One major advantage of a partnership is that the partners are not personally liable for any of the business' debts.
 10. _____ Anyone with the money to pay for a share of stock can become an owner of a private corporation.
 11. _____ Investments with high financial risks also offer the opportunity for greater financial return.
 12. _____ A bond is a financial instrument that obligates the issuer to pay the bondholder the principal plus interest at the end of a designated period.
 13. _____ Businesses raise money needed for short-term operating expenses by selling treasury bills.
 14. _____ Over the past 20 years, U.S. business investments in other countries has sharply decreased.
 15. _____ The exchange rate for a country's currency is based on the supply and demand for that currency.
 16. _____ The equation for calculating profitability is: Liabilities – Expenses = Profit (or Loss)
 17. _____ If liabilities increase and assets stay the same, then owner's equity declines.
 18. _____ If a business owner wants to know whether the amount of available cash for her business is increasing or decreasing, she would probably consult the cash flow statement.
 19. _____ If a small business does not eventually grow into a large business, it must be considered a failure.
 20. _____ An operating budget corresponds to a company's income statement.
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Multiple Choice (3 Points Each)

1. _____ Any item that serves as a method of payment is called
 - a. A stock.
 - b. A bond.
 - c. Money.
 - d. A promissory.

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2. _____ If a country exports more than it imports, it is said to have a
 - a. Trade surplus.
 - b. Trade deficit.
 - c. Consumer price index.
 - d. Budget deficit.
3. _____ Money that is borrowed by a company or government is called
 - a. Stock.
 - b. A certificate of deposit.
 - c. A bond.
 - d. A mutual fund.
4. _____ The first step in the personal financial planning process is to
 - a. Set financial goals.
 - b. Determine your current economic situation.
 - c. Create an action plan.
 - d. Evaluate all investment alternatives.
5. _____ Investing in a variety of assets is called
 - a. Diversification.
 - b. Playing the field.
 - c. Budgeting.
 - d. Gentrification.
6. _____ Which of the following would be considered a non-deposit institution?
 - a. Commercial bank.
 - b. Check-cashing outlet.
 - c. Credit union.
 - d. Savings and loan association.
7. _____ Which of the following provides loans for purchasing a home or other real estate?
 - a. Mortgage company.
 - b. Life insurance company .
 - c. Investment company.
 - d. All of the above.
8. _____ All of the following are examples of a business's current expenses EXCEPT
 - a. Rent.
 - b. Wages and salaries.
 - c. Advertising.
 - d. A new warehouse.
9. _____ One of the main roles of the FEDERAL government is to
 - a. Provide police and fire protection to communities.
 - b. Oversee activities involving intrastate commerce.
 - c. Oversee activities involving interstate commerce.
 - d. All of the above.
10. _____ The tax you pay when you purchase a new TV is an example of a(n)
 - a. Sales tax.
 - b. Property tax.
 - c. Income tax.
 - d. Earnings tax.
11. _____ Which of the following is NOT a guiding principle of the free enterprise economy?
 - a. right of private ownership
 - b. limited government role
 - c. tight restrictions on how consumers spend their money
 - d. business competition

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12. _____ A limited liability company combines features of which two forms of business ownership?
- sole proprietorship and corporation
 - corporation and multinational conglomerate
 - partnership and sole proprietorship
 - partnership and corporation
13. _____ The major financial disadvantage of a corporation is that
- each owner must participate in the day-to-day operations of the business.
 - the business must close or be sold when investors die.
 - profits can be taxed twice.
 - initial financing is usually more difficult to obtain.
14. _____ By far, the most common form of business organization in the United States is the
- sole proprietorship.
 - partnership.
 - corporation.
 - limited liability company.
15. _____ The organized exchange of the ownership shares of public corporations occurs at a
- money market.
 - stock market.
 - commodities market.
 - futures market.
16. _____ Which of the following is used to raise new capital for an organization?
- primary offering
 - secondary offering
 - purchase of commercial paper
 - all of the above
17. _____ The largest trading market in the world is the
- New York Stock Exchange.
 - NASDAQ.
 - commodities market.
 - foreign exchange market.
18. _____ The form of business ownership that provides more opportunities to raise capital and to attract experienced management is
- sole proprietorship
 - partnership
 - corporation
 - none of the above.
19. _____ The length of time invested money is controlled by others is known as the
- term
 - conditions
 - agreement
 - return.
20. _____ A company that transcends national boundaries and is not committed to a single home country is
- a foreign national company
 - a global business
 - an limited liability company
 - a virtual business.

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21. _____ Business financial goals are developed to respond to all of the following needs EXCEPT
- a business must finance future growth and improvement to remain competitive.
 - a business must meet its financial obligations and pay its debts.
 - a business must provide a competitive rate of return for its investors.
 - a business must maneuver itself so that it pays no corporate taxes.
22. _____ The amount of money a business borrows from the bank is called the
- interest.
 - collateral.
 - principal.
 - promissory note.
23. _____ A business financial goal must have all of the following characteristics EXCEPT
- it must be realistic.
 - it must never be changed under any circumstances.
 - it must be specific.
 - it must be established for an identified period of time.
24. _____ What is basic accounting equation?
- $\text{Assets} = \text{Liabilities} - \text{Owner's Equity}$
 - $\text{Owner's Equity} = \text{Assets} / \text{Liabilities}$
 - $\text{Liabilities} = \text{Assets} + \text{Owner's Equity}$
 - $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
25. _____ Which of the following would be considered a liability for a business?
- land.
 - accounts receivable.
 - accounts payable.
 - equipment.
26. _____ The financial statement that provides a view of the financial changes in a business over a period in time is the
- income statement.
 - profit analysis.
 - balance sheet.
 - cash flow statement.
27. _____ Which type budget projects all income and expenses for the operations of a business for a specific time period?
- cash budget.
 - capital budget.
 - expense budget.
 - operating budget.
28. _____ In the formula for determining simple interest, $i = Prt$, the interest rate is represented by
- i
 - r
 - P
 - t
29. _____ The amount of money that an investment will grow to in a defined period of time at a specified investment rate is called
- future value.
 - return value.
 - present value.
 - interest value.

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30. _____ An interested party in reading a company's annual report would be
- the company management.
 - shareholders.
 - competitors.
 - customers.
 - all of the above.

Interest Problems (15 Points Each)

Calculate the following amounts (using the desk calculator, Excel, or the calculator on the computer). Use the formulas below.

$$i = Prt \qquad FV = P(1 + r)^n$$

- Simple Interest Problem:** You borrow \$5,000 from your Aunt Mary at 7 percent simple interest. What is the total amount of interest that you have paid your aunt after two years? SHOW YOUR WORK.
- Compound Interest Problem:** You invest \$1000 in a 4-year bond that pays a compound annual rate of 5 percent. How much money will you receive back (principal and interest) over the four years? SHOW YOUR WORK.
- Compound Interest Problem:** You borrow \$20,000 to pay for college at 3 percent compound interest. What is the amount of principal and interest that you have paid on your student loan after five years? SHOW YOUR WORK.
- Compound Interest Problem:** A sole proprietorship borrows \$75,000 to open a new store. The bank charges 6 percent interest, compounded annually. The term of the loan is 12 years. What is the total amount that you will pay to the bank (principal and interest) over the 12 years? SHOW YOUR WORK.

Financial Problems (10 Points Each)

- A business has total assets of \$3.56 million and owner's equity of \$2.47 million. Find the total liabilities. SHOW YOUR WORK.
- The cash budget for The Century Corporation shows the following:

Beginning cash balance: \$375,000
Total inflow: \$980,000
Total outflow: \$1,150,000

What is the estimated ending cash balance? SHOW YOUR WORK.

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3. Bugzapper Company reported the following on its most recent income statement:

Total sales revenue: \$750,900
Total cost of sales: \$267,000
Total operating expenses: \$299,750
Interest paid: \$4,000
Taxes paid: \$7,340

Find Bugzapper Company's gross profit and net income. SHOW YOUR WORK.

4. The following entries appear on Crazy Co.'s balance sheet:

Cash: \$25,000
Supplies: \$400,000
Land: \$109,900
Mortgage: \$365,000

Using these figures, find owner's equity for Crazy Co. SHOW YOUR WORK.

Short Answers (25 Points Each) **ANSWER ALL 6 QUESTIONS**

YOU MAY TYPE OR WRITE YOUR ANSWERS ON SEPARATE SHEETS OF PAPER. STAPLE ALL PAGES TO THE BACK OF THE TEST.

Your response should be in complete sentences and should be approximately 50 words.

1. Explain the relationship between risk, return, and liquidity. Give some examples of investments that illustrate this relationship.
2. Explain how competition helps the participants in a market an economy. Provide some specific examples.
3. What are some of the benefits of expanding your business globally? Describe some of the potential problems that must be considered by global businesses.
4. Explain the difference between a primary market and a secondary market. If an investor was purchasing stock in a well-known company like Apple or GE, would this be in a primary or secondary market? How about If a company is raising money by selling stock? Explain.
5. Compare and contrast financial statements and financial budgets. How do companies use this information to help manage their business?
6. How can a business be growing, but not be profitable? Explain.