**Topic 1 Knowledge Check**

|  |  |
| --- | --- |
| Points: | 17 |

Started on May 02 at 23:34

Your Submission:

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1. Bookmark question for later

A bond is similar to a loan.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

A bond is a debt instrument issued by corporations or governments.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

A syndicate is a group of investors that is temporarily formed to handle a bond or stock issue.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

If the price of a particular stock begins to heavily fluctuate, then the specialist will \_\_\_\_\_\_\_\_\_\_ the spread.

|  |
| --- |
| * + Maintain the spread   + Increase the spread   + Reduce the spread   + None of these choices |
|  |

1. Bookmark question for later

A stock is a share of  \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in a particular company.

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| --- |
| * + Ownership   + Debt   + Cash |
|  |

1. Bookmark question for later

The New York Stock Exchange is an auction market.

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Some high frequency traders provide liquidity to the rest of the market.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

If providing liquidity becomes more risky, then dealers will \_\_\_\_\_\_\_\_\_\_ the spread.

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| --- |
| * + Narrow the spread   + Increase the spread   + Decrease the spread   + None of these choices |
|  |

1. Bookmark question for later

Without financial markets, exchange would become more costly.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

NYSE daily trading volume has increased over the last 50 years.

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| --- |
| TrueFalse |
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1. Bookmark question for later

Which type of bond placement – competitive sale or negotiated sale - requires a more thorough interview process?

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| --- |
| * + competitive sale   + negotiated sale |
|  |

1. Bookmark question for later

Secondary markets are where securities are initially offered to the public.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

An IPO is where a company goes public or sells shares to the public for the first time.

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| --- |
| TrueFalse |
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1. Bookmark question for later

The emergence of electronic trading on the NYSE has eliminated the role of a specialist (i.e., a market maker).

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Stocks and bonds are two types of financial instruments.

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

The matching principle in accrual accounting requires that\_\_\_\_\_\_\_\_\_.

|  |
| --- |
| * + revenues be recognized when the earnings process is complete and matches expenses to revenues recognized   + revenues are matched to the year in which they are booked   + expenses are matched to the year in which they are incurred   + revenues should be large enough to match expenses |
|  |

1. Bookmark question for later

A high-quality customer just purchased $500,000 worth of product from your company. The contract calls for immediate delivery of the product with a cash payment of $300,000 today and $200,000 to be paid in 60 days.  The expense associated with the product is $300,000, of which $100,000 has not been paid to your supplier. Under an accrual based accounting system, you will most likely report which of these?

|  |
| --- |
| * + Revenues of 500,000 and expenses of 300,000   + Revenues of 300,000 and expenses of 300,000   + Revenues of 500,000 and expenses of 200,000   + Revenues of 300,000 and expenses of 200,000 |

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**Topic 2 Knowledge Check**

|  |  |
| --- | --- |
| Points: | 27 |

Started on May 07 at 22:21

Your Submission:

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1. Bookmark question for later

Accounts payable represents money a firm owes to:

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| --- |
| * + Suppliers due to purchases made on credit   + Lenders under short-terms borrowing agreements   + Employees   + Other accounts |
|  |

1. Bookmark question for later

The basic balance sheet equation states that Assets are equal to Liabilities plus Owner’s equity. This is because all assets are:

|  |
| --- |
| * + Used as collateral to borrow money.   + Financed either by other people’s money or by the firm’s owners' money.   + Subject to liquidation.   + Property of the providers of capital. |
|  |

1. Bookmark question for later

(True/False) If you want to understand a firm’s operations, cash accounting is a superior tool.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

 The matching principle in accrual accounting requires that:

|  |
| --- |
| * + Revenues are matched to the expenses incurred to generate the revenues   + Revenues are matched to the year in which they are booked   + Revenues should be large enough to match expenses   + Expenses are matched to the year in which they are incurred |
|  |

1. Bookmark question for later

Which of the following would not be considered an operating expense?

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| --- |
| * + Rent expense   + Depreciation expense   + Non-direct labor expense   + Interest expense |
|  |

1. Bookmark question for later

The evolution of retained earnings is best described by:

|  |
| --- |
| * + Change in retained earnings = net income – dividends   + Dividends = retained earnings – net income   + Change in net income = change in dividends + change in retained earnings   + Net income = revenues – (retained earning + dividends) |
|  |

1. Bookmark question for later

Net Fixed Assets represents:

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| --- |
| * + Market value of the firm’s non-current assets   + The value of the firm’s assets held for use stated at original cost   + The total amount of depreciation claimed against the firm’s fixed assets   + The original cost of the firm’s assets held for use less accumulated depreciation |
|  |

1. Bookmark question for later

A firm can use retained earnings to pay bills if needed.

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| TrueFalse |
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1. Bookmark question for later

(True/False) The income statement represents a snapshot of the firm at one point in time.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Tax expense as shown on the income statement is the amount of cash the firm paid to the taxing authority during the period.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Accrual accounting recognizes:

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| --- |
| * + Revenues when cash is received and matches expenses to revenues recognized.   + Cash inflows as revenues and cash outflows as expenses.   + Revenues when the earning process is complete and expenses when cash is paid.   + Revenues when the earnings process is complete and matches expenses to revenues recognized. |
|  |

1. Bookmark question for later

(True/False) An income statement always provides an accurate measure of a firm’s cash flows.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Retained earnings represents:

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| --- |
| * + The cumulative earnings retained by the stockholders over the entire history of the entity   + The portion of the firm’s earning during the period that were not paid out as dividends   + The earning that the firm holds as cash in case of emergency   + The cumulative amount of the firm’s earnings not distributed to shareholders |
|  |

1. Bookmark question for later

 Notes Payable carry an explicit interest cost

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| TrueFalse |
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1. Bookmark question for later

Current assets are listed in order of:

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| --- |
| * + The most liquid to the least liquid.   + The lowest dollar value to the highest dollar value.   + The least liquid to the most liquid.   + The highest dollar value to the lowest dollar value. |
|  |

1. Bookmark question for later

A firm reported retained earnings of $305 in 20x2. For 20x3, the firm reports retained earnings of $400 and pays dividends of $25.  What was net income in 20x3?

|  |
| --- |
| * + $95   + $120   + $145   + $195 |
|  |

1. Bookmark question for later

When a firm purchases short-term U.S. Treasury securities, they are generally included on the balance sheet as:

|  |
| --- |
| * + Cash   + Accounts Receivables   + Marketable Securities   + Inventories |
|  |

1. Bookmark question for later

Earnings Before Interests and Taxes (EBIT) is also called:

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| --- |
| * + Gross profit   + Operating Income   + Gross margin   + Net Income |
|  |

1. Bookmark question for later

The use of the historical cost principle on the balance sheet means:

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| --- |
| * + Historical cost must be used to value the firm   + That most assets are stated at the original cost less depreciation   + The amounts on the balance sheet reflect revaluation using historical inflation rates   + Inflation must be impounded in the original cost of assets |
|  |

1. Bookmark question for later

A firm reported retained earnings of $300 in 12/31/2012. For 12/31/2013, the firm reports retained earnings of $400 and pays dividends of $25. What was their net income in 2013?

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| --- |
| * + 300   + 125   + 400   + 100 |
|  |

1. Bookmark question for later

A basic equation for the balance sheet is\_\_\_\_\_\_\_.

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| --- |
| * + Equity = Assets – Liabilities   + Assets = Equity – Liabilities   + Assets = Liabilities – Equity   + Liabilities = Equity + Assets |
|  |

1. Bookmark question for later

Why is the balance sheet known as a permanent statement?

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| --- |
| * + The statement is sent to the SEC.   + The statement is printed out and archived.   + The statement persists in the minds of the shareholders.   + The other statements are reset at the end of the fiscal year. |
|  |

1. Bookmark question for later

How do you calculate the change in retained earnings?

|  |
| --- |
| * + EBIT divided by Total assets + Dividends   + Net income – Dividends   + EBIT – Change in cash – Dividends   + Ending retained earnings – Change in cash |
|  |

1. Bookmark question for later

Which of the following is generally true?

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| --- |
| * + Gross profit and operating income are the same   + EBIT + Income taxes = Net income   + Operating income and EBIT are the same   + Cost of goods sold + Operating expenses = Net income |
|  |

1. Bookmark question for later

Which components are part of total assets?

|  |
| --- |
| * + Cash, accounts receivable, short term debt   + Cash accounts receivable, inventory, long term assets   + Accounts payable, long term assets, long term debt   + Accounts payable, net income, equity |
|  |

1. Bookmark question for later

Which components are part of current assets?

|  |
| --- |
| * + Cash, accounts receivable, property plant & equipment   + Inventory, cash, accounts receivable, short term investments   + Accounts receivable, accounts payable, inventory   + Long term debt, property plant & equipment, common stock |
|  |

1. Bookmark question for later

Which components are part of total liabilities?

|  |
| --- |
| * + Bonds, accounts payable, mortgage   + Accounts payable, accounts receivable, short term debt   + Common stock, long term debt, short term investments   + Long term debt, common stock, retained earning |

**Topic 3 Knowledge Check**

|  |  |
| --- | --- |
| Points: | 31 |

Started on May 22 at 00:32

Your Submission:

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1. Bookmark question for later

Which one of the following is NOT a part of the statement of cash flows?

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| --- |
| * + Cash flows from investing activities   + Cash flows from liquidating activities   + Cash flows from operating activities   + Cash flows from financing activities |
|  |

1. Bookmark question for later

The sum of CFO + CFI + CFF is equal to:

|  |
| --- |
| * + Net income   + The change in cash during the period   + The ending cash balance   + Cash on hand |
|  |

1. Bookmark question for later

Which of the following is true with respect to CFO?

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| --- |
| * + An increase in accounts payable indicates a reduction in CFO   + An increase in inventory indicates a reduction in CFO   + A decrease in notes payable indicates a reduction in CFO   + An increase in cash indicates a reduction in CFO |
|  |

1. Bookmark question for later

Free Cash Flow (FCF) is different from Cash Flows from Operations (CFO) because FCF:

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| --- |
| * + Represents cash flow after required investment   + Represents all actual cash flowing into the firm   + Does not represent distributable cash   + Does not allow for required reinvestment |
|  |

1. Bookmark question for later

Balken, Inc. reports the following on their most recent financial statements:

* + Change in accounts payable: $50
  + Change in notes payable: $100
  + Change in long-term debt: $200
  + Change in retained earnings: -$120
  + Net income: $170

What is Balken's CFF for the period?

|  |
| --- |
| * + $10   + -$10   + $180   + $130 |
|  |

1. Bookmark question for later

(True/False) The Statement of Cash Flows is not useful when assessing the financial health of a firm due to the impact of accrual accounting.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Which of the following will decrease CFO?

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| --- |
| * + An increase in inventory and a decrease in notes payable   + A decrease in inventory and an increase in accounts payable   + An increase in accounts receivable and a decrease in accounts payable   + An increase in inventory and an increase in accounts payable |
|  |

1. Bookmark question for later

Depreciation expense is a significant source of difference between net income and CFO because:

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| --- |
| * + Depreciation expense is non-cash expense but still represents an outflow of cash to the firm.   + Depreciation expense is the actual cash outflow from the firm associated with the decay in asset values.   + Depreciation expense is non-cash expense on the income statement associated with the acquisition of long-lived assets.   + Depreciation expense is the actual cash inflow to the firm associated with investment tax benefits. |
|  |

1. Bookmark question for later

For visualization purposes, it is correct to think of balance sheet accounts relevant to CFI as being on the bottom of the financing side.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Increases in operating assets and decreases in operating liabilities will decrease CFO.

|  |
| --- |
| TrueFalse |
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1. Bookmark question for later

While looking at XYZ Corp’s two most recent balance sheets, you notice inventory decreased by $100,000. The firm has a tax rate of 40%. To calculate Cash Flow from Operations, you will:

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| --- |
| * + Subtract $60,000 from CFO   + Subtract $100,000 from CFO   + Add $60,000 to CFO   + Add $100,000 to CFO |
|  |

1. Bookmark question for later

(True/False) Assuming no asset disposals, CFI is equal to the change in Net PP&E.

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

(True/False) A firm can sustain negative CFO indefinitely by borrowing, selling equity, and/or by selling assets.

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

A firm reports the following cash flow data:

o   CFO = $1mm

o   CFI = -$750k

o   CFF = -$100k

Which of the following is most reasonable assessment given the data?

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| --- |
| * + The negative CFF indicates bad management decisions   + The firm is likely to be under-investing   + The firm is a top performer   + The firm is sustainable in its current state |
|  |

1. Bookmark question for later

Increases in operating balance sheet accounts will decrease CFO.

|  |
| --- |
| TrueFalse |
|  |

1. Bookmark question for later

When calculating CFO, which of the following is correct?

|  |
| --- |
| * + Add an increase in cash   + Add an increase in accrued wages   + Subtract depreciation expense   + Subtract an increase in accounts payable |
|  |

1. Bookmark question for later

Which one of the following items should NOT be included in the calculation of CFF?

|  |
| --- |
| * + Dividends paid during the fiscal year   + Change in Long-term Debt   + Change in Common Stock   + Change in Retained Earnings |
|  |

1. Bookmark question for later

(True/False) When calculating CFO, you generally include the changes in all current assets and current liabilities.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Assuming no asset disposals, depreciation expense is equal to:

|  |
| --- |
| * + CFF - CFI   + The change in retained earnings   + Common equity   + The change in accumulated depreciation |
|  |

1. Bookmark question for later

FCFF can sustainably be distributed to the providers of capital.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Given the following data, calculate CFF for 20X3.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | **20X2** | **20X3** |
| Retained Earnings | | 3,400 | 3,600 |
| Accounts Payable | | 2,100 | 1,900 |
| Notes Payable | | 1,200 | 1,300 |
| Common Stock | | 4,200 | 4,500 |
| Accounts Receivable | | 3,200 | 3,700 |
| Net Income | | 400 | 500 |
| Long-Term Debt | | 4,500 | 4,500 |
| * + ($100)   + $0   + $200   + $100 | | | |
|  | | | |

1. Bookmark question for later

(True/False) The calculation of FCFF uses NOPAT instead of Net Income because FCFF is the cash available to both debt holders and equity holders.

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| --- |
| TrueFalse |
|  |

1. Bookmark question for later

Intel reported the following for 2014:

Net income 100,000

Depreciation 20,000

Change in A/R 10,000

What is the cash flow from operating activities?

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| --- |
| * + 110,000   + (130,000)   + 120,000   + 100,000 |
|  |

1. Bookmark question for later

Intel reported the following for 2014:

Gross equipment (1/1/14) 50,000

Gross equipment (12/31/14) 65,000

Net income 100,000

Depreciation 20,000

What is the cash flow from investing activities for 2014?

|  |
| --- |
| * + 100,000   + 15,000   + 80,000   + (15,000) |
|  |

1. Bookmark question for later

What is the cash flow from operations given the following information?

Net income                                                          450,000

Change in accounts receivable                       120,000

Change in inventory                                          - 90,000

Change in PP&E                                                  60,000

Depreciation expense                                        110,000

Change in accounts payable                               50,000

Change in accrued expenses                           - 75,000

Change in common stock                                 300,000

|  |
| --- |
| * + 505,000   + 410,000   + 375,000   + 570,000 |
|  |

1. Bookmark question for later

What is the cash flow from investing?

Increase in gross PP&E                       125,000

Beginning net PP&E                            750,000

Ending net PP&E                                  850,000

Depreciation expense                           25,000

|  |
| --- |
| * + 150,000   + (75,000)   + (125,000)   + 850,000 |
|  |

1. Bookmark question for later

What is the cash flow from financing?

Accounts payable                                 100,000

Accrued expenses                                   50,000

Increase in mortgage payable               300,000

Decrease in bonds payable                    75,000

Dividends paid                                          80,000

|  |
| --- |
| * + 505,000   + 230,000   + 225,000   + 145,000 |
|  |

1. Bookmark question for later

When fixed assets increase what happens to cash?

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| --- |
| * + Cash increases.   + Assets decrease.   + Cash decreases.   + Cash stays the same. |
|  |

1. Bookmark question for later

Last year a firm recorded net PP&E of $4,600 while this year the same firm recorded net PP&E of $4,500. If the depreciation expense for last year and this year are $500 and $800, respectively, what is the CFI of the company? (Assume no asset disposals)

|  |
| --- |
| * + 900 outflow   + 100 outflow   + 100 inflow   + 700 outflow |
|  |

1. Bookmark question for later

Which is the purpose of the statement of cash flows?

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| --- |
| * + It explains the change in cash balance for one period of time.   + It serves as the replacement for the income statement and balance sheet.   + It explains the change in cash balance at one point in time.   + both (a) and (b) above |
|  |

1. Bookmark question for later

Financial data for Intel is given below for 2014:

· EBIT  1,000,000

· Depreciation 30,000

· Change in working capital (10,000)

· Net capital expenditures 15,000

· Tax Rate 40%

Compute the free cash flow for 2014.

|  |
| --- |
| * + 625,000   + 600,000   + 610,000   + 675,000 |

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