

Overview

Understanding how financial institutions operate is important to successful business ownership and management, as well as to personal financial success. This event provides recognition for FBLA members who have an understanding of and skills in the general operations of the various components of the financial services sector.

This is a team event composed of two or three members. This event consists of two parts: an objective test and a performance. The objective test is taken collaboratively by the team members and the top ten (10) teams scoring the highest on the objective test will advance to the final round and participate in the performance component.

Competencies

The topics listed below are prioritized, listing first the most important content areas of the test.

Objective Test Competencies

- Concepts and practices of banking and financial systems
- Government regulation of financial services
- Basic terminology
- Impact of technology on financial services
- Types and differences between various institutions
- Ethics
- Careers in financial services
- Taxation

Performance Competencies

- Demonstrate understanding of case
- Understand role of the judge as component of the presentation
- Provide introduction and overview
- Explain, discuss, describe recommendations
- Critical thinking/reasoning
- Correct grammar, tone, style
- Ability to make a professional presentation

Procedures/Tips

- Review the Competitive Events Tips in the front of the book.
- Teams will be sequestered.
- Teams have twenty (20) minutes to review the case study.
- Teams have seven (7) minutes to present the case and the judges have three (3) minutes for a Q&A.

Web Site Resources

- <http://www.fdic.gov/quicklinks/consumers.html>
- <http://www.federalreserveeducation.org/>
- <http://www.equifax.com>
- <http://www.transunion.com>
- <http://www.experian.com>

Banking & Financial Systems Sample Questions

1. Revenues are reported when
 - a. work is completed on the job.
 - b. a contract is signed.
 - c. work is begun on the job.
 - d. cash is received from the customer.
2. The last two quarters to be issued in the "State Quarters" series will be issued in 2008, and will be those commemorating
 - a. Alaska and Hawaii.
 - b. Texas and New Mexico.
 - c. Washington and Alaska.
 - d. Oklahoma and Arizona.
3. One unique feature of the \$50 bill is the
 - a. picture of Alexander Hamilton on the front of the bill.
 - b. Great Seal of the United States on the back of the bill.
 - c. image of the U.S. Capitol building on the reverse of the bill.
 - d. use of lower case letters for the words "Federal Reserve Note."
4. An investor might want to use a "put" option if she believes that
 - a. a firm is planning an initial public offering.
 - b. the price of a stock will go down in the next few months.
 - c. a company is planning to split its stock.
 - d. the price of a stock will rise before the option period expires.
5. Helen insures her car with Slambang Direct Property and Casualty Company. She has full coverage, including 500-200-50 personal injury liability, \$100,000 maximum coverage for property damage, collision with a \$500 deductible, and comprehensive with a \$350 deductible. Her personal injury protection (also known as "medical payments") requires that she pay the first \$1,000. The insurance company pays 75% of the next \$5,000 and everything above that amount. One day, Helen swerved to avoid hitting a possum. Her car went across the center line, sideswiped another car, and slid down the side of a hill. The occupants of the other car were not hurt, but Helen suffered a broken leg and some additional minor (but painful) injuries. The damage to the other car came to \$2,400. Helen's car required \$4,100 in repairs. Her medical bills totaled \$9,250. The amount the insurance company will pay out in claims for this incident is
 - a. \$12,500.
 - b. \$13,000.
 - c. \$15,750.
 - d. \$14,500.
6. The Federal Reserve would be most likely to institute a "tight money" policy under which of the following conditions:
 - a. The economy is booming, and consumer goods prices are rising rapidly.
 - b. Stock prices are falling rapidly, and the costs of materials being paid by producers are rising slowly.
 - c. The inflation rate is low.
 - d. Unemployment is high, and the administration wants tax cuts to stimulate the economy.
7. An office building that was purchased five years ago for \$570,000 was recently assessed for real estate tax purposes at 144% of its purchase price. The building's current assessed valuation is
 - a. \$1,295,455.
 - b. \$ 808,200.
 - c. \$ 395,833.
 - d. \$ 820,800.

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8. The Dowdells purchased options to buy one thousand shares of Ford Motor Company common stock at \$18.75 a share. The cost of each 100-share option contract was \$112.50, and the options were good for a period of six months. The current price of Ford common stock at the time was \$12.61 per share. Five months later, the stock had risen to \$24.40 a share. Should they decide to exercise their option, the commissions on the purchase and sale of the stock would total \$30. Based on this set of facts, it is true that the Dowdells:
- should not exercise their options at this time, as they will have a short-term capital loss of \$5,630 on their stock if the options are exercised and the stock is sold at the current market price
 - can exercise their put option and make a gain of \$4,525 on Ford common stock
 - could elect to exercise their call options and have a \$4,495 short-term capital gain on 1,000 shares of the Ford stock
 - should not exercise their put options on Ford Motor stock at this time, locking in a long-term capital gain of \$5,507.50, because Ford's stock price might go up

Water Systems Technology, Inc. is a "C" corporation that pays taxes on its net profits according to the following schedule:

*15% of the first \$50,000
25% of the next \$25,000
34% of the next \$25,000
39% of the next \$235,000*

9. Using the information above, the firm's net taxable income for last fiscal year was \$274,200. What is its corporate tax liability for that period?
- \$106,938
 - \$ 41,130
 - \$ 90,188
 - \$103,700
10. Chin Wong has the following accounts at Midwestern Federal Savings:
- o Individual savings account: balance \$59,000
 - o Individual retirement account: balance \$114,000
 - o Revocable trust account (three beneficiaries, each is to receive an equal share), owner retains full control over the money during his lifetime; balance is \$225,000

If Midwestern Federal were to fail today, the minimum amount for which FDIC insurance would reimburse Chin would be:

- \$384,000
 - \$273,000
 - \$398,000
 - \$259,000
11. Distributions of profits by corporations to their shareholders are called
- reinvestments.
 - capital gains.
 - dividends.
 - tax-deductible exclusions.
12. The purpose of an acceleration clause in an installment agreement is to
- give the borrower an opportunity to pay the account in full at any time without an additional charge.
 - allow the lender to make the entire loan balance due immediately if the borrower has not made payments on time.
 - give borrowers a chance to change the payment date to an earlier day of the month if they so choose.
 - provide for a single, very large payment at some point during the loan in order to shorten the loan term and reduce the total interest paid by the borrower.

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13. The practice of buying debt at a discount is known as
 - a. factoring.
 - b. capitalizing.
 - c. outsourcing.
 - d. probate.
 14. Initial public offerings (IPOs) of stock are brought to market by financial professionals who underwrite the issuance of stock by purchasing and distributing companies' newly issued shares. These financial professionals are known as
 - a. equity brokers.
 - b. securities analysts.
 - c. investment bankers.
 - d. syndicators.
 15. The Health Insurance Portability and Accountability Act of 1996
 - a. limits the pre-existing illnesses and other aspects of an insured's physical condition that group health insurers may choose not to cover.
 - b. allows insurers to deny health insurance to applicants based on their physical condition and previous illnesses they have had.
 - c. places limits on the premiums that group health insurers may charge.
 - d. applies to both individual and group health insurance.
 16. One of the purposes of the Gramm-Leach-Bliley Act is to
 - a. force lenders to tell borrowers how much interest they would pay on a loan, the amount of other finance charges, and the payment terms of the loan.
 - b. encourage on-line banking and the use of automated teller machines.
 - c. prevent discrimination against those living in poor, inner city neighborhoods who want to purchase homes.
 - d. allow banking consumers a way to restrict the use of personal information.
 17. In early 2007, the Federal Reserve has decided that inflation is a major worry. It has decided to take actions to reduce the chance that inflation will get out of hand. Among the actions the Federal Open Market Committee might take is to
 - a. call a temporary halt to free and open markets in the United States.
 - b. sell Treasury bills or Treasury bonds.
 - c. purchase mortgages on the secondary mortgage market.
 - d. charge individual banks more to supply them with currency and coins.
 18. The "prime rate" is the interest rate that
 - a. the Federal Reserve charges member banks when they borrow reserves from a regional Federal Reserve Bank.
 - b. banks charge their best corporate borrowers and most reliable customers.
 - c. banks charge each other an overnight borrowing necessary to be in compliance with reserve requirements.
 - d. individual commercial banks charge on any given day for unsecured business loans.

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19. Insurance brokers determine which type(s) of coverage a client needs and scan the market to determine which companies can offer the best deal on that coverage. All of the following are unacceptable practices for an insurance broker **except**:
- substantially overestimating the amount of insurance needed to protect against a particular peril and telling the customer that the extra is to "protect against inflation"
 - overcharging clients and receiving "kickbacks" from insurance companies
 - discussing insurance needs with a client, then arranging insurance for some, but not all, of the perils that the client believes are important to insure against
 - arranging insurance coverage with an insurance company, paying them, then billing the client for an amount greater than the premium
20. LeVar Franklin wants to open an account at the brokerage firm Rox Stones Bolldurs. The securities representative for RSB reviewed Mr. Franklin's financial situation and knows what types of securities products are appropriate for him. LeVar signed a number of documents to open the account. However, Mr. Franklin did not get around to signing the disclosure document required of new customers where he indicates his individual investment objectives. All other paperwork was satisfactorily completed, and LeVar left a \$20,000 check with the representative so funds would be available for trading. During the discussion, Mr. Franklin stated that he was "anxious to get started with his investment program." He and the broker agreed upon several stocks that would be purchased with part of the funds. Mr. Franklin then promptly left on an extended vacation and cannot be reached. Since this was the only form not signed, the RSB representative should
- wait until Mr. Franklin returns and get his signature on the form before making investments.
 - attempt to contact one of Mr. Franklin's relatives and have the relative sign the form.
 - send in the other paperwork without the form and purchase the agreed-upon investments for Mr. Franklin.
 - sign the form for the customer and send it in with the other paperwork.
21. Nellie Jones is 71 years old. She receives social security checks each month. Her only other income comes from her stock and bond portfolio, which is currently invested with the securities firm Mickey, Pluteau, and Donald (MP&D), which has an office near her home. Recently, Dewey Dukk, a young securities representative from MP&D, has been trying to convince her to increase the return on her investments by selling most of her bonds and putting the money into the somewhat risky stocks. His sales pitch to her is, "You're not going to live forever so you might as well make more money now." Which of the following is **true** about this situation?
- As long as Ms. Jones does not take Mr. Dukk's advice, there is no harm done. Nobody at MP&D should or will say anything to Mr. Dukk.
 - There is a substantial violation of the NASD's "suitability" rules and ethical standards of professional conduct on the part of Dewey Dukk.
 - Making money is the name of the game here. If Mr. Dukk is persuasive enough to convince Ms. Jones to invest money in a way that generates commissions for him, then good for him! "Caveat emptor" is the only rule that applies here.
 - Mr. Dukk's advice may not be very good, but there is no legal or ethical problem with it. Ms. Jones does, after all, have the final say about how her funds are invested.
22. Many banks do not return checks along with the depositor's monthly bank statement. Most banks use digital imaging to photograph both sides of checks and will make copies if depositors need them. One disadvantage of this practice is that
- the increased cost of processing and mailing monthly statements to depositors causes monthly service charges to increase.
 - in case of a dispute with a payee, it is inconvenient for depositors to access a cancelled check to prove payment.
 - it becomes almost impossible for depositors to balance the monthly bank statement.
 - digital images of checks are not clear enough to read, so it's hard to tell whom checks were written to or the amount of the check.

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23. A purchaser of Treasury bills would
- establish an account on the Internet and make the purchase online.
 - go to the nearest Federal Reserve branch or headquarters bank to participate in an auction.
 - send a letter to the Treasury Department, which would send the T-bills to the purchaser and bill him/her within 30 days.
 - only be able to purchase the T-bills by authorizing an automatic debit to his/her checking account.
24. "Check conversion" is the process of
- cashing paper checks and receiving cash or coin in exchange.
 - making payments through ATMs or other point-of-use terminals instead of using paper checks.
 - sending payments by using a scanner to copy a paper check and converting it into a standard check form available on a creditor's Web site.
 - converting payments made with paper checks into electronic payments.
25. The "big three" credit reporting agencies (credit bureaus) in the United States include all of the following **except**
- Trans Union.
 - Equifax.
 - CreditData.
 - Experian.
26. Encumbrances are things that reduce the value, the quality of allowable uses, or the enjoyment of a property. All of the following are encumbrances **except**
- county tax liens for unpaid property taxes.
 - a mortgage loan on a personal residence.
 - fees, paid in cash at the time a property sale is closed, that are charged to a borrower by a lender for making a mortgage loan.
 - a deed restriction that prohibits a purchaser of land from playing any team sport on that property.
27. Merchants can have faith that traveler's checks will be honored because
- the full faith and credit of the U.S. government stands behind each traveler's check.
 - only those with excellent credit can purchase traveler's checks.
 - the checks were paid for in cash and the user must "countersign" the check with a signature that matches a signature entered at the time the checks were purchased.
 - once a traveler's check is used, the merchant can use a special feature on the check to instantly have the funds taken from the payor's account.
28. Supplies purchased on account were incorrectly recorded as Office Equipment. The correcting entry would be;
- Supplies, debit; Office Equipment, credit
 - Accounts Receivable, debit; Supplies, credit
 - Office Equipment, debit; Supplies Expense, credit
 - Supplies, debit; Accounts Payable, credit
29. The funds transfer system used by the Federal Reserve that handles transfers for federal funds, interbank dealings, and securities transactions is called:
- Clearinghouse Interbank Payment System (CHIPS)
 - Electronic Payment PresentSystem (EPPS)
 - Monex
 - Fedwire

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30. Certified Public Accountants (CPAs) perform several business functions, including designing and maintaining accounting systems, verifying the accuracy of accounting records and statements, preparing tax returns, and providing consulting services. Those who earn the CPA credential
- a. are required to have at least a bachelor's degree in accounting or a related subject.
 - b. usually have worked in the insurance field or have experience doing investment advising.
 - c. can open an accounting office and advertise themselves as a CPA with no previous experience in the practice of accounting.
 - d. take a multipart examination that includes accounting practice, auditing theory, and tax law.

Banking & Financial Systems Sample Case Study

Instructions

- All teams will be sequestered thirty (30) minutes before the first performance to receive instructions and time assignments. Twenty (20) minutes before the performance each team will receive the case study. The team will have seven (7) minutes to present.
- Review performance rating sheet to make sure the areas on the rating sheet have been addressed.

Performance Indicators

- Problem is understood and well-defined
- Alternatives are recognized with pros and cons stated and evaluated
- Logical solution is selected with positive and negative aspects of its implementation given
- Demonstrates knowledge and understanding of banking and financial systems concepts
- Thoughts and statements are well-organized and clearly stated; appropriate business language used
- Team members are forceful and show self-confidence, poise, and good voice projection
- All team members participate actively during the presentation.
- Demonstrates ability to effectively answer questions

Case Study Scenario

Lisa has a great new product for the scrapbooking industry. She would like to have mat board used in traditional framing cut into frames and accent pieces in scrapbook sizes. She has done her market research and found very few quality products like this. Part of her market research connected her with a custom frame shop owner. From him, she learned about sourcing mat board, cutting mat board, and storing mat board.

She also researched packaging and UPC codes so she could sell in bulk to large retail outlets like Ben Franklin or to scrapbook stores. While the investment to get the company off the ground isn't an incredible amount, it is more than Lisa has saved up. Therefore, she is looking for guidance on how to best raise capital for her company.

Here are some facts about her needs and company:

- She is the sole proprietor of her company, MatScrap
- She is a minority female
- She estimates that she needs about \$20,000 for the following:
 - Mat board stock (\$1,500)
 - Cutter (Leased at \$500 per month)
 - Computer (\$750)
 - Packaging supplies (\$2,000)
 - UPC Code Registration (\$5,000)
 - Marketing and Website (\$5,000)

Lisa has owned her home for 15 years and plans to work from the house. She and her husband have no children and only have 5 more years on their mortgage. She has \$5,000 set aside to help with the company expenses and launch.

Lisa's friend, Sarah, has hinted that she would like to be part of the business venture since her last child just moved out of the house. She and her husband could put in the \$20,000 in return for a share of the company. Lisa has heard stories about starting a company with friends and their money, which have raised some concerns in Lisa's mind, but Sarah is not worried.

Lisa has considered borrowing the money against her house. She has also heard about SBA loans, but doesn't know too much about them. Lisa (the judges) has come to you to learn which of the solutions/options outlined above best suits her needs, or if there are other options to consider.

Accounting I Answer Key

- | | | |
|-------|-------|-------|
| 1) D | 11) A | 21) D |
| 2) C | 12) A | 22) A |
| 3) B | 13) B | 23) A |
| 4) A | 14) C | 24) A |
| 5) C | 15) D | 25) C |
| 6) B | 16) C | 26) D |
| 7) C | 17) D | 27) B |
| 8) C | 18) A | 28) C |
| 9) A | 19) B | 29) A |
| 10) D | 20) A | 30) D |

Accounting II Answer Key

- | | | |
|-------|-------|-------|
| 1) D | 11) B | 21) A |
| 2) C | 12) A | 22) B |
| 3) A | 13) D | 23) A |
| 4) D | 14) D | 24) A |
| 5) C | 15) B | 25) C |
| 6) B | 16) B | 26) C |
| 7) B | 17) C | 27) D |
| 8) B | 18) B | 28) A |
| 9) C | 19) D | 29) A |
| 10) A | 20) A | 30) B |

Banking & Financial Systems Answer Key

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|-------|-------|-------|
| 1) D | 11) C | 21) B |
| 2) A | 12) B | 22) B |
| 3) C | 13) A | 23) A |
| 4) B | 14) C | 24) D |
| 5) B | 15) A | 25) C |
| 6) B | 16) D | 26) C |
| 7) D | 17) B | 27) C |
| 8) C | 18) B | 28) A |
| 9) C | 19) D | 29) D |
| 10) A | 20) A | 30) D |

Business Calculations Answer Key

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|-------|-------|-------|
| 1) D | 11) C | 21) A |
| 2) B | 12) B | 22) D |
| 3) B | 13) B | 23) D |
| 4) D | 14) A | 24) D |
| 5) B | 15) A | 25) C |
| 6) A | 16) B | 26) A |
| 7) B | 17) A | 27) A |
| 8) A | 18) A | 28) D |
| 9) B | 19) D | 29) D |
| 10) C | 20) A | 30) D |

Business Communication Answer Key

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|-------|-------|-------|
| 1) A | 11) B | 21) D |
| 2) C | 12) B | 22) D |
| 3) B | 13) B | 23) B |
| 4) A | 14) B | 24) D |
| 5) A | 15) A | 25) C |
| 6) A | 16) B | 26) D |
| 7) C | 17) D | 27) D |
| 8) C | 18) A | 28) B |
| 9) C | 19) C | 29) B |
| 10) A | 20) D | 30) B |