



Exam 2014, Questions

Principles Of Business (University of California, Berkeley)



Module 1 Exam – Cover Sheet

Instructions

- This is an exam. Do not talk.
- Your books, notes, and electronic devices must be put completely away, out of sight.
- **Do not open the exam** until you are told to begin.
- Once you leave the exam room, you may not return. No bathroom or other breaks during the exam.
- Turn in your Scantron in the folder for your Discussion Section number.
- Keep the questions when you leave.
- If you do not have a Scantron form/pencil, take your seat, raise your hand and wait with your \$10
- Any contravention of these instructions will lead to your ejection from the exam with zero points
- While you are waiting to begin, enter the following information on your Scantron:

LINE:	INFO TO ENTER:	EXPLANATION:
Name:	LAST, First, Middle	Make sure your family name comes first
Subject:	1234-5678	Your Student ID Number
Test No.:	See question 38	This is your test version (ABCD) and unique ID number (0 to 9999)
Date:	1	This is the module number for this exam
Hour (Period):	101, 102, 103, etc.	This is your Discussion Section number – see below

Section	Day / Time	GSI Name
101	Tu 8-9A	Rajat Gulati
102	Tu 9-10A	Rajat Gulati
103	Tu 10-11A	Chris Dulgarian
104	Tu 11-12P	Chris Dulgarian
105	Tu 12-1P	Mitya Voloshchuk
106	W 8-9A	Mitya Voloshchuk
107	W 10-11A	Debora Basso
108	W 11-12P	Claire Bianchi
109	W 12-1P	Claire Bianchi
110	W 1-2P	Steven Truong
111	Th 8-9A	Steven Truong
112	Th 9-10A	Josie Sullivan
113	Th 10-11A	Josie Sullivan
114	Th 11-12P	Debora Basso
115	Th 12-1P	Joseph Hanna
116	Th 1-2P	Joseph Hanna
117	Tu 1-2P	Andrea Soto
118	Tu 2-3P	Andrea Soto

UGBA 10 – Principles of Business
MODULE 1 EXAM – Sample exam
FINANCE & ACCOUNTING
Instructor: Professor Briginshaw

1) Which of the following are the three categories on a company's cash flow statement?

- A) operating activities, purchase activities, taxes
- B) profit inflow, debt outflow, taxes
- C) profitable activities, deficit activities, taxes
- D) operating activities, investing activities, taxes
- E) operating activities, investing activities, financing activities

Answer: E

Explanation: E) Those are the three main figures by which net cash flow is calculated. P. 229

2) Which of the following statements BEST describes the difference between current and long-term liabilities?

- A) Current liabilities are debts that need to be paid immediately, whereas long-term liabilities do not.
- B) Current liabilities are those which will cost less in debt interest than long-term liabilities.
- C) Current liabilities are debts that are settled sooner than long-term debts.
- D) Current liabilities are debts on tangible assets, whereas long-term liabilities are debts on intangible assets.
- E) Current liabilities are debts on current assets, whereas long-term liabilities are debts on fixed and intangible assets.

Answer: C

Explanation: C) Current liabilities include accounts payable: unpaid bills to suppliers for materials as well as wages and taxes that must be paid in the coming year. Long-term liabilities are debts that are not due for at least a year. P. 226

3) Which are the two major fields of accounting?

- A) managerial and forensic
- B) financial and managerial
- C) bookkeeping and advisory
- D) corporate and individual
- E) public and private

Answer: B

Explanation: B) The two fields of accounting can be classified according to the users they serve; it is convenient and accurate to classify users as those outside the company and those inside the company. P. 219

4) Which of the following statements is TRUE?

- A) As common practice, a sales representative for a firm receives information from the firm's financial accounting system.
- B) As common practice, a sales representative for a firm receives information from the firm's managerial accounting system.

- C) As common practice, a sales representative for a firm receives information from both the firm's managerial accounting system and its financial accounting system.
- D) As common practice, a sales representative for a firm receives information from the firm's revenue accounting system.
- E) As common practice, a sales representative for a firm does not receive any information from the firm's accounting system.

Answer: B

Explanation: B) The managerial accounting system is concerned with internal users.

5) Which of the following describes assets such as land, building, and equipment?

- A) liquid assets
- B) fixed assets
- C) intangible assets
- D) current assets
- E) limited assets

Answer: B

Explanation: B) Fixed assets are tangible things of value.

6) Which of the following terms refers to the amount of money that owners would receive if they sold all of a company's assets and paid all of its liabilities?

- A) asset
- B) owners' equity
- C) inventory
- D) liability
- E) credit

Answer: B

Explanation: B) Owners' equity or stockholders equity is that value that represents the financial stake in a company by the owners. Using the accounting equation $A=L+OE \Rightarrow OE=A-L$

7) Which of the following terms refers to the examination of a company's accounting system to determine whether its financial reports fairly represent its operations?

- A) company-wide analysis
- B) forensic accounting
- C) portfolio analysis
- D) audit
- E) preliminary investigation

Answer: D

Explanation: D) An audit is an examination by an external party to ensure that a company's financial reports are faithful and accurate.

8) Big Al's Cheese is a cheese shop. In January, Al's Cheese finds some excellent cheese called Gouda from Holland. They buy \$500 worth on credit, taking delivery in January, to pay Gouda in 60 days (i.e. they will pay the supplier in March). In February they start to sell the cheese, and deliver 60% of the cheese to their favorite customers for a 200% markup in February. The

customers pay immediately in cash. What is the Revenue, Income and Cash flow for Al's Cheese in February?

	Revenue	Income	Cash flow
a)	900	400	900
b)	0	900	0
c)	900	600	400
d)	900	600	900

Answer: d

Cost of Goods Sold = $60\% \times \$500 = \300 (only 60% of the cheese is sold, \$200 remains to be sold next month)

Revenue = $\$300 + (\$300 \times 200\%) = \$900$ (the cost is marked up by 2 times (200%))

Cash flow = \$900 (revenue is received immediately, costs to be paid in March)

Income = Revenues minus costs = $\$900 - \$300 = \$600$

9) What is the point at which the supply curve and the demand curve intersect on a graph?

A) equilibrium price

B) decision point

C) surplus price

D) perfect price

E) parity point

Answer: A

Explanation: A) The equilibrium price is determined by the shape of the supply curve and the demand curve when plotted by amount available and price. The equilibrium price is set at the point at which the supply curve and the demand curve intersect.

10) What does a planned economy rely on a centralized government to do?

A) support free enterprise in every way possible

B) allocate all or most factors of production

C) encourage citizens to buy shares of stock in small companies

D) keep its control activities to a minimum

E) direct workers to start their own small businesses.

Answer: B

Explanation: B) A centralized government controls all or most of the factors of production.

11) Which of the following terms refers to the percentage of its deposits a bank must hold, in cash or on deposit, with a Federal Reserve bank?

A) discount rate

B) key rate

C) prime rate

D) federal insurance premium

E) reserve requirement

Answer: E

Explanation: E) This is controlled by the Fed.

12) Assume that 10% reserve requirement has been imposed on banks. A client of Wells Fargo discovers a \$50 bill that has been lost for 100 years and therefore was not included in the money supply statistics. He deposits the \$50 in a checking account, which the bank relends to a new client (minus the reserve requirement) in cash. What is the effect on the M-1 money supply?

- a) There is no change in the M-1 Money supply
- b) The M-1 Money supply increases by \$50
- c) The M-1 Money supply increases by \$95
- d) The M-1 Money supply increases by \$100

Answer: c

Explanation: M-1 increases by \$50 (bank balance) + $(\$50 \times .9)$ (cash in hands of borrower) = \$95

13) A jeweler assesses the value of a flawless white diamond as considerably more than that of a rhinestone. Which function of money does this illustrate?

- A) foundation of banking
- B) medium of exchange
- C) store of value
- D) measure of worth
- E) stabilization of value

Answer: D

Explanation: D) Money lets us measure the value of goods and services.

14) Which of the following statements BEST describes why a decrease in reserve requirements often results in an increase in the money supply?

- A) A decrease in reserve requirements gives banks more money to better determine their interest rates.
- B) A decrease in reserve requirements gives banks more money to pay off their debts.
- C) A decrease in reserve requirements gives banks more money to lend out.
- D) A decrease in reserve requirements gives banks more money to offer in dividend payments to their clients.
- E) A decrease in reserve requirements gives banks more money to reward their employees for meritorious financial ventures.

Answer: C

Explanation: C) A decrease in the reserve requirement "frees up" extra money that can be distributed in the form of loans, for example.

15) Which of the following is NOT part of the M-1 supply?

- A) currency at hand
- B) currency amount of written checks
- C) currency available through a debit card
- D) currency in checking accounts
- E) currency value of time deposits

Answer: E

Explanation: E) M-1 includes only the most liquid forms of money: cash, checks, and checking accounts.

- 16) When thinking about exchange rates, a cheap dollar relative to the Euro is **best** for
- a) US tourists visiting Euro zone countries
 - b) US exporters selling into the Euro Zone
 - c) European companies seeking to sell imports into the USA
 - d) Japanese tourists visiting Europe

Answer: B – a given number of euros buys more in dollars, so the Europeans are encouraged to buy more US products.

- 17) Who is the Governor of the Bank of England
- a) Mario Draghi
 - b) Mark Carney
 - c) Silvio Berlusconi
 - d) Jacob Lew

Answer: B

- 18) A person seeking to plan their retirement will be able to save the **lowest** proportion of their income and meet income replacement goals if they
- a) begin saving at 35 and retire at 62
 - b) begin saving at 25 and retire at 62
 - c) begin saving at 35 and retire at 65
 - d) begin saving at 25 and retire at 65

answer: d

Explanation: Most years saving and least years retired will lead to the lowest required savings rate.

- 19) A person invests \$100 for 3 years at the prevailing interest rate of 15%. The future value of the investment is closest to....
- a) \$68
 - b) \$100
 - c) \$145
 - d) \$152

Answer: d

Explanation: 100 with simple interest (no compounding) will give \$145. With compounding it **must** be slightly higher, but cannot be lower. Therefore \$152 must be the correct answer.

- 20) According to the Earnings Game reading, Channel stuffing is designed to get retailers to accept large levels of inventory to increase the manufacturers revenues in the current period. What is/are the problems with channel stuffing?
- a) It increases current period revenues at the expense of next period revenues
 - b) It forces the retailers to expend cash at a time they cannot afford it
 - c) it leads to an excess of barbecues in people's backyards
 - d) both a and b are correct

Answer: A

Explanation: See Earnings Game pages 8-9 **NOTE: READING DELETED**

21) According to the Everything Boom reading, many assets are trading at prices that are high by historic standards relative to fundamentals. This is likely to lead to:

- a) an imminent crash
- b) relatively low returns for investors going forward
- c) continued high returns for investors
- d) further rises in the value of ultra safe assets, such as T-bills

Answer: B

Explanation: See Everything Boom page 3. **NOTE: READING DELETED**

22) The following are all sources of cash in the Capsim finance screen **except**

- a) Paying dividends
- b) Selling unwanted production capacity
- c) Issuing Long Term Debt
- d) Issuing Stock

Answer: A

Explanation: Dividends are cash out of the company.

Use the following text to answer the next **two** questions

Growth Revised to 4.6%, Brightening the Outlook
New York Times / ASSOCIATED PRESS
SEPT. 26, 2014

WASHINGTON — The bounce-back in the United States' economy last quarter from a dismal winter was even faster than previously thought, a sign that growth will most likely remain solid for the rest of the year.

The economy as measured by gross domestic product grew at a 4.6 percent annual rate in the April-June quarter, the Commerce Department said on Friday. It was the fastest pace in more than two years and was higher than the government's previous estimate of 4.2 percent.

The upward revision reflected stronger-than-expected business investment and exports last quarter. The healthy second-quarter growth was a sharp rebound from the January-March quarter, when the economy shrank at a 2.1-percent rate during a brutal winter that idled factories and kept consumers at home.

23) GDP is defined as

- a) Gross national product divided by national population
- b) The total value of all goods and services produced within a given period by a national economy through domestic and international factors of production
- c) The total value of all goods and services produced within a given period by a national economy through domestic factors of production
- d) The total value of all goods and services produced within a given period by a national economy through international factors of production

Answer: C

Explanation: See custom text page 21

24) All of the following statements are true with regard to the above article **except**

- a) The commerce department initially underestimated the rate of GDP growth in April-June
- b) The shrinkage of the economy in January-March is thought to be due to bad weather
- c) The upward revision of last quarter GDP was partly due to exports
- d) The annual growth rate of 4.6% in the April-June quarter equates to a year on year economic growth of 19.7% when compounding is taken into account

Answer: D

Explanation: The quarterly growth has already been annualized – “gross domestic product grew at a 4.6 percent **annual rate** in the April-June quarter”.

Contribution Margin

25) Sam's Pizza pays \$800 fixed rent per month and each pizza costs \$3 in ingredients and hourly paid labor. Pizzas sell for \$5 per pizza - what is the break even number of pizzas for Sam's pizza?

- a) 400 pizzas
- b) 267 pizzas
- c) 667 pizzas
- d) 500 pizzas

Answer: a

CM per unit = price minus variable cost per unit = \$5-\$3 = \$2

Profit = volume x CMPU – fixed_cost => Volume_BE = fixed_cost/CMPU = 800/2 = 400 u

26) Sam' Pizza pays \$800 fixed rent per month and each pizza costs \$3 in ingredients and hourly paid labor. Pizzas sell for \$5 per pizza. If Sam's sells 500 pizzas, what is the total contribution margin and what is the profit (ignore taxes)?

	Contribution margin	Profit
a)	\$1000	\$0
b)	\$1500	\$700
c)	\$1000	\$200
d)	\$1500	\$500

Answer: c

Total_CM = \$2 x 500 = \$1000

Profit = volume x CMPU – fixed_cost = Total_CM – fixed_cost = \$1000 – 800 = \$200

- 27) Kim has investments in stocks, and wants to calculate her total return. What should she do?
- A) Divide the yearly dollar amount of dividend income by the investment's current market value.
 - B) Compare the dividend against current yields from other investments.
 - C) Subtract the cost of the stock from what she sold it for.
 - D) Divide the current dividend payment plus capital gain by the original investment.
 - E) Subtract current liabilities from current assets.

Answer: D

Explanation: D) Total return is the sum of current dividend plus capital gain, divided by the original investment. It is expressed as a percentage.

28) What is the formula for measuring a firm's working capital?

- A) current assets = working capital /current liabilities
- B) working capital = current assets - current liabilities
- C) current liabilities = current assets + working capital
- D) working capital = current assets x current liabilities
- E) current liabilities = current assets / working capital

Answer: B

Explanation: B) Subtracting current liabilities from current assets lets you know how much money a firm has to work with. See page 313 of the custom text.

Financial Statement and ratio analysis: Use the following information on Peters Incorporated to answer the next two questions

Average stockholders' equity	\$10,000	Net income	\$ 1,500
Average total assets	\$15,000	Net sales	\$30,000
Current assets	\$10,000	Total liabilities	\$5,000
Current liabilities	\$2,000		

29) What is the Return on equity for Peters?

- a) 2 b) 15% c) 5% d) 5

Answer: b

Explanation: $\text{RoE} = \text{net income} / \text{equity} = 1500 / 10000 = 15\%$, see HBS reading page 2

30) What is the Asset Turnover for Peters?

- a) 2 b) 15% c) 5% d) 5

Answer: a

Explanation: $\text{Asset Turnover} = \text{Sales} / \text{assets} = 30000 / 15000 = 2$, see HBS reading page 3

31) Which of the following is considered by many to be the BEST single indicator of the U.S. equities market?

- A) NASDAQ Composite
- B) Russell 2000
- C) Dow Jones Industrial Average
- D) Standard & Poor's 500
- E) New York Stock Exchange

Answer: D

Explanation: D) The S&P 500 considers more companies than the Dow Jones, and so is regarded as a better indicator.

32) What is the term for buying several different kinds of investments rather than just one?

- A) spreading B) shorting C) margin buying
- D) diversification E) management

Answer: D

Explanation: D) The risk of loss is reduced by spreading the investment across asset classes and, within those classes, different stocks and bonds.

33) Which of the following statements is true about common stocks as investments?

- A) Stocks are among the riskiest of all investments.
- B) Stocks are most suitable for investors who seek security.
- C) Stocks will never become worth less than their purchase price.
- D) Stock prices reflect only government action.

Answer: A

Explanation: A) Stocks are a volatile and risky investment, and crashes can lead to sizable losses.

- 34) Which of the following correctly describes a defined contribution (DC) pension scheme?
- a) The pension is a guaranteed income which is paid unless the employer goes broke
 - b) The employee's dollar ownership in the scheme is difficult to calculate due to actuarial issues
 - c) The pension is entirely dependent on the money contributed by the employee, which is repaid in retirement without loss or gain
 - d) The pension is entirely dependent on the money contributed by the employee and/or employer, and the investment choices made by the employee to increase that money

Answer: d

Explanation: The DC scheme allows the employee to choose the investments and benefit from the returns, however the pension is not guaranteed. Options a and b describe a defined benefit (DB) scheme.

- 35) Which of the following is an example of a psychological bias known to be a problem for investors
- a) profit affection
 - b) bandwagon effect
 - c) program trading
 - d) dark pool effect

Answer: b

Explanation: see lecture 11 notes

- 36) According to the "In need of a new hip..." reading, price competition in artificial implants in the United States is limited due to:-
- a) Clearly publicized pricing
 - b) The fact that orthopedists wish to stay on the system they learned on
 - c) Availability of cheaper foreign alternatives
 - d) High volumes of implants bought by each hospital group

Answer: b

Explanation: see page 3 of the reading **NOTE: READING DELETED**

37. I have carefully checked my Scantron. My Section number and name is correctly shown
- a. Yes
 - b. No
38. This is version "A": fill in the "A" bubble for this question and write the letter and unique exam identifier "A0003" in the "TEST NO." box of your Scantron.

IMPORTANT NOTE: IN THE EVENT YOU DO NOT WRITE YOUR UNIQUE IDENTIFIER (A0003) ON THE SCANTRON, IF YOUR IDENTIFIER DOES NOT MATCH THAT SHOWN ABOVE OR IF IT HAS BEEN USED BY ANOTHER STUDENT, YOU WILL AUTOMATICALLY SCORE ZERO ON THIS TEST.