

## SAMPLE QUESTIONS - PART 1- revised 2/08

### Section A. Business Economics

1. In the long run, a firm may experience decreasing returns due to
  - a. the principle of substitution.
  - b. opportunity costs.
  - c. marginal costs.
  - d. diseconomies of scale.
  
2. If the price of computers decreases and total revenue of the firm increases, then the demand for computers is
  - a. inelastic and the elasticity of demand is greater than one.
  - b. inelastic and the elasticity of demand is less than one.
  - c. elastic and the elasticity of demand is greater than one.
  - d. elastic and the elasticity of demand is less than one.
  
3. Which one of the following **most** accurately describes the market conditions normally associated with pure competition?
  - a. High barriers to entry; homogenous products; many independent firms.
  - b. Few independent firms; high barriers to entry; differentiated products.
  - c. Low barriers to entry; homogenous products; many independent firms.
  - d. Differentiated products; many independent firms; low barriers to entry.
  
4. The trough of a business cycle is generally characterized by which one of the following?
  - a. Shortages of essential raw materials.
  - b. Increasing capital investments.
  - c. Increasing price level.
  - d. High unemployment.
  
5. Information related to the financial transactions for a country is given below with values stated in billions of US\$.

Gross domestic product (GDP)	\$4,000
Transfer payments	500
Corporate income taxes	50
Social Security contributions	200
Indirect business taxes	210
Personal taxes	250
Undistributed corporate profits	25
Depreciation	500

Net income earned abroad

0

What is National Income?

- a. \$3,500.
- b. \$3,290.
- c. \$3,475.
- d. \$4,500.

## Section B. Global Business

6. Assume that the US dollar is depreciating against the Japanese yen. Which of the following groups benefits **most**?
- Japanese importers from China
  - Japanese exporters to US
  - US exporters to Japan
  - US government
7. Which one of the following is the **most** likely result of the U.S. imposing a tariff on imported steel?
- Foreign steel producers will ship more steel to the U.S., but at a lower price.
  - Foreign steel producers will ship less steel to the U.S., but U.S. users of steel will pay more.
  - U.S. steel producers will sell more steel to U.S. users, but at a lower price.
  - Foreign steel producers will benefit from the higher price of steel.
8. The Baker Company, a U.S. corporation, has a manufacturing affiliate in Mexico. Baker wants to expand the capability of this plant. The plant is very profitable and generates a substantial positive cash flow. The Mexican Peso equivalent of US\$1,000,000 is available to be paid in dividends to the U.S. parent from the Mexican affiliate. In addition, another affiliate, located in Europe, has the Euro equivalent of US\$750,000 available to be paid in dividends.

Which one of the following should **not** be considered when Baker is trying to determine the best way to finance a \$500,000 investment in the Mexican facility?

- The current book value of the Mexican facility.
- Interest rates in Mexico.
- Interest rates in Brazil.
- The expected movement of the Mexican peso and the Euro versus the US dollar.

### Section C. Internal Controls

9. Which one of the following is most likely to be a major contribution that internal auditors can make to the corporation for which they work?
  - a. Prepare financial statements for submission to regulators.
  - b. Identify corporate risks for top management, and suggest methods of minimizing those risks.
  - c. Attest to the completeness and accuracy of financial statements for outside investors.
  - d. Advise top management on how to interpret new accounting standards.
  
10. Which one of the following adds to the risk of operating an online, real time computer system?
  - a. Updates are made continuously as transactions are processed.
  - b. The system interacts with many function of the business, including sales, purchases, payables, receivables, and inventory.
  - c. The system allows faster detection of unauthorized transactions.
  - d. Updates can be originated by many people, in many locations.
  
11. Risk assessment is an increasingly important issue. Which of the following **best** describes an appropriate response after management has identified a risk?
  - a. Eliminate the risk through diversification.
  - b. Develop internal controls to mitigate the risk.
  - c. Accept the risk and the associated profit.
  - d. Continue the search for other risks.

## Section D. Quantitative Methods

12. The table below shows the estimated probabilities of the percent of defective units resulting from a production run.

<u>Percent Defective</u>	<u>Probability</u>
2%	22%
3%	48%
4%	30%

The expected percent defective for a production run would be

- a. 1.50%.
  - b. 2.68%.
  - c. 2.90%.
  - d. 3.08%.
13. Regression analysis is a powerful tool that can help business people forecasts, including forecasts of demand. Which of the following may be good candidates to consider as independent variables in forecasting the quantity demanded?
- a. Price
  - b. Advertising
  - c. Disposable income
  - d. All three can be used in multiple regression..
14. Hanson Company manufactures two different types of receivers, a regular Model R and a special features Model S. The company has limited resources. On an annual basis it has a total of 480 direct labor-hours and a total of 300 lbs. of material available for use in the manufacture of these receivers. The company uses linear programming to determine a production schedule that will maximize the company's profit.

Based on the company's current data on selling prices and production costs, it is estimated that the sale of Model R will contribute \$7 profit per unit and the sale of Model S will contribute \$10 profit per unit. Resources used in the production of the two receivers are as follows. (Let Model S = S and Model R = R.)

	<u>Model S</u>	<u>Model R</u>
Raw materials used per unit	5 lbs.	3 lbs.
Labor used per unit	6 hours	4 hours

The objective function for Hanson Company can be expressed as

- a.  $5S + 3R \leq 300$ .
- b.  $6S + 4R \leq 480$ .
- c.  $\text{Max } 7R + 10S$

d.  $\text{Min } 5S + 3 R$

15. Reeves Inc. has developed a new production process to manufacture its product. The new process is complex and requires a high degree of technical skill. However, management believes there is a good opportunity for the employees to improve as they become more familiar with the production process. The production of the first unit requires 100 direct labor hours. If an 80% learning curve is used, how many cumulative direct labor hours (to the nearest hour) would be required to produce a total of eight units?

- a. 100 hours.
- b. 274 hours.
- c. 490 hours.
- d. 520 hours.

## Section E. Financial Statement Analysis

16. Comparison of common-size financial statements from year to year is referred to as

- vertical analysis.
- horizontal analysis.
- liquidity analysis.
- activity analysis.

17. Appalachian Outfitters Inc., a mail order supplier of camping gear, is putting together its current year Statement of Cash Flows. A comparison of the company's year-end balance sheet to the prior year's balance sheet shows the following changes from a year ago.

<u>Assets</u>		<u>Liabilities &amp; Net Worth</u>	
Cash & Marketable Securities	\$ (600)	Accounts Payable	\$ 250
Accounts Receivable	200	Accruals	50
Inventories	(100)	Long-term Note	(300)
Gross Fixed Assets	3,600	Long-term Debt	1,400
Accumulated Depreciation	500	Common Stock	0
		Retained Earnings	<u>2,200</u>
Total	<u>\$3,600</u>	Total	<u>\$3,600</u>

The firm's payout ratio is 20%. During the current year, net cash provided by operations is

- \$2,900.
- \$3,050.
- \$3,450.
- \$4,050.

18. Selected financial information from Ferguson Inc.'s financial statements is shown below.

### Statement of Financial Position (\$000's)

	<u>Current Year</u>	<u>Prior Year</u>
Total current assets	740	590
Total long-term assets	<u>960</u>	<u>1,045</u>
Total assets	<u>\$1,700</u>	<u>\$1,635</u>
Total current liabilities	315	285
Total long-term liabilities	94	80
Shareholders' equity	<u>1,291</u>	<u>1,270</u>
Total liabilities and equity	<u>\$1,700</u>	<u>\$1,635</u>

Income Statement  
(\$000's)

Net Sales	\$1,750
Cost of goods sold	<u>880</u>
Gross profit	870
Operating expenses	<u>712</u>
Operating income	158
Interest expense	11
Income taxes	<u>59</u>
Net income	<u><u>\$ 88</u></u>

Ferguson Inc.'s operating profit margin for the current year is

- a. 5%.
  - b. 8%
  - c. 9%
  - d. 50%
19. Which of the following statements is **most** important for an analyst to use to determine the financial leverage of a company?
- a. The Statement of Financial Position.
  - b. The Statement of Changes in Stockholders' Equity.
  - c. The Statement of Cash Flows.
  - d. The Income Statement.
20. Norton Inc. has a 2 to 1 current ratio. This ratio would decrease to less than 2 to 1 if
- a. the company collected an accounts receivable when due.
  - b. the company increased its reserve for bad debts.
  - c. the company sold merchandise for cash that earned a normal gross margin.
  - d. the company purchased inventory by paying cash..

**Sample Questions Part 1 – Feb 08 (web)**

<b>Question#</b>	<b>Key</b>
1.	D
2.	C
3.	C
4.	D
5.	B
6.	C
7.	B
8.	A
9.	B
10.	D
11.	B
12.	D
13.	D
14.	C
15.	C
16.	B
17.	C
18.	C
19.	A
20.	B