



Finance

Sample Exam Questions

The Finance Sample Exam will assist in preparing participants in the following events:

1. Accounting
2. Corporate Finance

These test questions were developed by the MBA Research Center. Items have been randomly selected from the MBA Research Center's Test-Item Bank and represent a variety of instructional areas. Performance indicators for these test questions are at the prerequisite, career-sustaining, and specialist levels. A descriptive test key, including question sources and answer rationale, has been provided.

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1. Which of the following is often cited as the most significant stumbling block in achieving compliance goals within large financial organizations:
 - A. Poor data quality
 - B. Lack of training
 - C. Inadequate funding
 - D. Improper accounting system

2. Clayton recently invested \$50,000 in an oil company. The company has agreed to use Clayton's investment strictly for exploration purposes. Rather than writing off \$50,000 from its corporate taxes, the company passed the deduction on to Clayton. Clayton can now write off the entire amount of his investment against his taxes. Clayton invested his money in
 - A. offshore companies.
 - B. flow-through shares.
 - C. government bonds.
 - D. derivatives.

3. To accommodate recent regulation changes, a brokerage firm must implement new financial reporting activities. What positive action can the firm take to help its employees adapt to the change?
 - A. Hire additional employees who are knowledgeable about the regulations
 - B. Survey the employees to get their opinions about the regulatory changes
 - C. Revise the firm's vision statement to include the importance of following regulations
 - D. Educate and train the employees about the regulatory changes

4. Which of the following statements regarding financial institutions is true:
 - A. Finance and insurance institutions typically hinder the flow or movement of money through the economy.
 - B. If the flow of money into a financial institution slows down, there is less money available for the institution to lend or invest.
 - C. Financial institutions concentrate the risk that individual savers and investors face among a small number of borrowers.
 - D. Because each financial institution functions independently, the failure of one financial institution has little effect on the others.

5. Analyze the information in the mutual fund table about the AnMI mutual fund.

Name	NAV	Net Chg	YTD %ret	4Wk %ret	Total Returns			Max Init Chrg	Exp Ratio
					1 yr	3yr-R	5yr-R		
AnMI	21.52	-0.12	+17.7	+3.5	NA	+22.3A	+19.4A	0.00	1.40

Based on the information provided, what type of mutual fund is the AnMI fund?

- A. Back-load
 - B. Front-load
 - C. No-load
 - D. Expiring back-load

6. Which of the following can be used to identify the unethical manipulation of records in a financial-information management system:
 - A. Long-term liabilities
 - B. What-if planning
 - C. Audit trails
 - D. Direct checks

7. Which of the following statements regarding accounting and finance is correct:
 - A. Accounting focuses on the past, while finance focuses on the future.
 - B. Accounting is much broader than finance, which focuses on investments.
 - C. Financial managers typically report to the vice president of accounting.
 - D. The finance department focuses on assets, while accountants track liabilities.

8. Ingrid must analyze various aspects of the completed project by comparing the results with the objectives. What process is Ingrid likely to use to obtain all of the information for analysis?
- A. Internal audit
 - B. Administrative appraisal
 - C. Team review
 - D. Productivity evaluation
9. To manage potential risks resulting from unethical conduct, many companies build internal infrastructures that promote and enforce ethical practices. This internal infrastructure is likely to include appropriate audit procedures, a code of conduct, and a _____ policy.
- A. constituent
 - B. credit
 - C. monetary
 - D. whistleblower
10. Which of the following questions should a business answer in relation to proactive planning:
- A. When did the local government increase the tax rate for the businesses in the area?
 - B. How could our management team have prevented this breakdown from occurring?
 - C. What changes have been occurring in the marketplace that could affect the business?
 - D. Why did the promotional plan fail to meet the business's annual objectives?

KEY

1. A
Poor data quality. Due to the size and complexity of most large financial organizations, data quality is a challenge. Multiple business units, geographic locations, and product lines create an environment in which it is difficult to properly integrate data to meet compliance requirements while retaining the quality and integrity of that data. Lack of training and inadequate funding can make it difficult to reach compliance goals, but they are not usually cited as the most significant problem in compliance. An improper accounting system is unlikely to be directly related to the achievement of compliance goals.
SOURCE: CC:003
SOURCE: Informatica. (2006, November). *Data quality, compliance, and risk for financial institutions*. Retrieved January 14, 2011, from <http://jobfunctions.bnet.com/abstract.aspx?docid=322623&tag=content;col1>
2. B
Flow-through shares. Flow-through shares are common tax shelters used by taxpayers to reduce their tax burdens. Corporations that issue flow-through shares are typically part of the mining industry. These companies agree to use whatever funds they receive from investors for exploration purposes—in other words, to locate new sources of oil, gold, copper, etc. Rather than writing off these funds from their corporate taxes, the companies pass the tax deductions on to their investors, who can write off their entire investments against their taxes. Offshore companies, which are also commonly used as tax shelters, are businesses that are incorporated outside the country. Government bonds are interest-bearing certificates issued by the government, which promises to pay bond owners a certain sum at a specified time. Derivatives are financial instruments whose value depends upon the value of other financial instruments (e.g., currencies, securities, commodities, etc.) or a market index.
SOURCE: BL:134
SOURCE: Taylor, P.S. (2007, December/January). *Everyone's guide to tax shelters*. Retrieved February 28, 2011, from <http://www.moneysense.ca/2007/01/16/everyones-guide-to-tax-shelters/2/>
3. D
Educate and train the employees about the regulatory changes. Businesses must be able to adapt to environmental changes to thrive in the marketplace. External factors, such as regulation changes, may require businesses to change the way they carry out certain processes. These processes can affect the ways in which employees perform their jobs. To help employees adapt to these types of changes, management must communicate with employees. This may involve providing training and education programs to help them understand the changes, so they can effectively transition to a new way of doing things. Surveying employees, revising the firm's vision statement, and hiring additional employees will not help the employees adapt to regulatory changes.
SOURCE: EC:107
SOURCE: Kreitner, R., & Kinicki, A. (2004). *Organizational behavior* (6th ed.) [pp. 673, 675, 690]. New York: The McGraw-Hill Companies.

4. B

If the flow of money into a financial institution slows down, there is less money available for the institution to lend or invest. Financial institutions act as intermediaries by transferring money from those who have it (savers and investors) to those who need it (borrowers). When a financial institution brings in less money, then it has less money available to lend or invest. Finance and insurance institutions help facilitate the flow or movement of money through the economy from those who have money to those who need money. Financial institutions reduce the risk that individual savers and investors face by spreading their funds out among many borrowers. That way, if a loan or investment goes bad, its impact on individual savers and investors is minimized. Financial institutions are often connected to each other through deposits, investments, and loans that they make to each other. If one financial institution fails, it has the potential to cause a string of other financial institution failures.

SOURCE: FI:336

SOURCE: MBA Research and Curriculum Center. (2009). *Introduction to finance course guide* (pp. 5-19-5-20). Columbus, OH: Author.

5. C

No-load. No-load mutual funds do not charge sales commissions or purchase fees. According to the mutual fund provided, the maximum initial charge for purchasing shares of the AnMI mutual fund is \$0.00. So, all of an individual's investment would go toward the purchase of shares of AnMI. A front-load mutual fund charges commissions and/or purchase fees when buying shares of the fund. A back-load mutual fund charges fees when an investor sells her/his shares of the fund. An expiring back-load mutual fund also charges fees when an investor sells her/his shares, but at a certain point in time or when the account reaches a certain level, these fees decline or disappear completely.

SOURCE: FI:275

SOURCE: Badenhop, S. (2005, October). *Investments: How to read the financial page*. Retrieved March 1, 2011, from <http://www.ca.uky.edu/agc/pubs/fcs5/fcs5439/fcs5439.pdf>

6. C

Audit trails. Although unethical individuals might erase certain accounts or transactions from their financial-information management system, a record of their erasures would appear in system audit trails. What-if planning involves identifying and considering options for financial decision-making by applying different assumptions to financial data within spreadsheet software. Long-term liabilities are debts that will take longer than a year to pay. A direct check is a method of checking goods in which the goods received are checked directly against the purchase order or the invoice.

SOURCE: FM:003

SOURCE: de Jager, P. (2002, September/October). *Ethics: Good, evil, and moral duty*. Retrieved February 18, 2011, from http://findarticles.com/p/articles/mi_qa3937/is_200209/ai_n9143308/?tag=content;col1

7. A
Accounting focuses on the past, while finance focuses on the future. Accountants are responsible for tracking and analyzing financial transactions to determine a client's or business's financial performance. Individuals in finance use the information that accountants prepare to predict and plan for the future. Finance, which focuses on money and capital markets, investments, and financial management, is broader than accounting. Private accountants typically report to a controller who reports to an executive within the finance department, such as the vice president of finance or chief financial officer. Financial managers and accountants focus on both assets and liabilities, not one or the other.
SOURCE: FM:005
SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (pp. 102-103). South-Western Cengage Learning.
8. A
Internal audit. An audit is an evaluation of an organization, process, or project. The project manager and team members can determine its successes, strengths, problems, and weaknesses by evaluating all aspects of the project upon completion. The evaluation helps the project team develop a "lessons learned" document that can be used by teams that execute similar projects for the organization in the future. A comprehensive audit will evaluate many different activities associated with the project, including resource utilization, team productivity and performance, efficiency of processes, and stakeholders' satisfaction, which is done by comparing the objectives with the actual results.
SOURCE: OP:159
SOURCE: Row, J.R., & Scudder, R. (2010, May 10). *The project deliverables of an internal audit*. Retrieved January 6, 2011, from <http://www.brighthub.com/office/project-management/articles/70376.aspx>
9. D
Whistleblower. One way to manage potential risks resulting from unethical conduct is to build an internal infrastructure that promotes and enforces ethical practices and offers incentives to behave ethically. This internal infrastructure typically includes appropriate audit procedures, a code of conduct, a committee to develop the code, training for employees about the code, and a whistleblower policy. A whistleblower policy encourages and enables employees to report unethical behavior or actions without fear of negative repercussions such as demotion or firing. A credit policy is a guideline for a business to follow in controlling the use of payment plans that allow customers to purchase now and pay later. Monetary policy is the government policy that determines the amount of money that will be in circulation and the level of interest rates. Constituent policies are public policies that apply to the government or nation as a whole. Constituent policies include national security, foreign affairs, diplomacy, etc.
SOURCE: RM:041
SOURCE: Francis, R. & Armstrong, A. (n.d.). *Ethics as a risk management strategy: The Australian experience*. Retrieved March 2, 2011, from <http://eprints.vu.edu.au/777/1/JBEthicsRisk.pdf>

10. C

What changes have been occurring in the marketplace that could affect the business? Proactive planning focuses on what is going on now and how could it impact the future of the business. Because a primary aspect of proactive planning involves taking advantage of opportunities rather than reacting to problems, the business should consider changes that have been occurring in the marketplace, such as changes in customers' needs, changes in competitors' activities, etc. By analyzing these changes, a business can develop a plan to act on opportunities to their advantage and stop potential threats. The remaining options are reactive questions rather than proactive questions.

SOURCE: SM:011

SOURCE: Godfrey, J. (2009, February 4). *Proactive vs. reactive*. Retrieved March 10, 2011, from <http://www.c-peopleinc.com/blog/jeremy-godfrey/proactive-vs-reactive>