Answers to Final Exams – Short Courses located at www.exinfm.com/training

Course 1 – Evaluating Financial Performance

1. Which ratio is best used for measuring how well management did in managing the funds provided by shareholders?

    a. Profit Margin

    b. Debt to Equity

    c. Return on Equity

    d. Inventory Turnover

Answer = c: Shareholders are interested in the return a business generates on the money the shareholder has invested. Therefore, answer c – Return on Equity is correct. Shareholders tend to focus on long term returns vs. managers who focus on profitability. Answer a – Profit Margin would be more applicable to Managers. Financial Managers and people interested in assessing risk would be interested in b – Debt to Equity. Mangers, primarily interested in inventory management, would be interested in d – Inventory Turnover.

2. If sales are $ 600,000 and assets are $ 400,000, then asset turnover is:

    a. .67

    b. 1.50

    c. 2.00

    d. 3.50

Answer = b: The British often refer to sales as turnover since the ultimate reason a business invests in assets is to turn over the asset dollar into a sales dollar. If we divide sales of $ 600,000 by $ 400,000 we get 1.5 – answer is thus b. Average assets is often used in the denominator of the ratio. This tells us for every $ 1.00 we invested into assets, we were able to turn this into $ 1.50 of sales.

3. An extremely high current ratio implies:

    a. Management is not investing idle assets productively.

    b. Current assets have been depleted and the company is insolvent.

    c. Total assets are earning a very low rate of return.

d. Current liabilities are higher than current assets.

Answer = a: A high current ratio may imply that the company is carrying a lot of current assets on the books and these assets might be better utilized if the company invested or converted these assets into long-term investments. Generally, a business generates a return on its long-term assets and not its liquid or current assets such as cash, accounts receivable, or inventory. These types of assets are sitting around – idle. They don't produce or generate sales or service customers like your long-term investments in technology would. You gain little by holding idle assets (including non-productive fixed assets) and you tend to gain much more by investing into longer term investments that provide solutions to your customers, make your employees more productive, etc.

4. If we have cash of $ 1,500, accounts receivables of $ 25,500 and current liabilities of $ 30,000, our quick or acid test ratio would be:

   a. 1.88

   b. 1.33

   c. 1.11

   d. .90

Answer = d: If you add up your highly liquid assets ($ 1,500) of cash and accounts receivable ($ 25,500), you have total liquid assets of $ 27,000. Now divide this by the total current liabilities of $ 30,000 = .90. For every $ 1.00 of current liabilities, we have $ .90 of liquid assets to cover these liabilities.

5. The number of times we convert receivables into cash during the year is measured by:

   a. Capital Turnover

   b. Asset Turnover

   c. Accounts Receivable Turnover

   d. Return on Assets

Answer = c: The Accounts Receivable Turnover ratio measures the number of times you turn receivables over into cash. It is calculated by dividing your credit sales by the average receivable balance for the period. For example, if you had credit sales for the year of $ 100,000 and your average receivable balance during the year was $ 10,000, then you have a receivable turnover of 10.

6. If our cost of sales are $ 120,000 and our average inventory balance is $ 90,000, then our inventory turnover rate is:

   a. .50

b. .75

c. 1.00

d. 1.33

Answer = d: Simply divide the Cost of Goods Sold or Cost of Sales of $ 120,000 by the average inventory balance for the period of $ 90,000 = 1.33.

7. We can estimate our Operating Cycle by taking the sum of:

   a. Receivable Turnover + Inventory Turnover

   b. Days in Receivables + Days in Inventory

   c. Asset Turnover + Return on Sales

   d. Days in Sales + Days in Assets

Answer = b. A company must run through a conversion cycle which for retail businesses would consist of the company's time to take cash invest the cash into inventory and then sell the inventory on account, turning inventory into accounts receivable and then finally, converting the receivable back into cash where we first started. So the number of days in receivables + inventory would be the time we tied up our cash and this time period should cover the normal operating cycle of the business and depending upon the business, this may or may not fit within a 12-month annual period.

8. If Operating Income (Earnings Before Interest Taxes) is $ 63,000 and Net Sales are $ 900,000, then Operating Income to Sales is:

   a. 18%

   b. 12%

   c. 7%

   d. 4%

Answer = c: This is simply dividing your operating income of $ 63,000 by the total net sales of $ 900,000 = 7%. This gives us some idea of the operating return the company generates; i.e. before taxes and non-operating expenses, for every $ 1.00 of sales we generate a return of $ .07.

9. If the price of the stock is $ 45.00 and the Earnings per Share is $ 9.00, then the P / E Ratio is:

   a. 2

   b. 5

c. 9

d. 15

Answer = b: Simply divide the price of the stock of $ 45.00 by the Earning per Share of $ 9.00 = 5. The company is selling for 5 times earnings. This is a ratio commonly used by investors to quickly evaluate if a company is possibly under or over valued on the stock market.

10. Net Income for 1996 was $ 400,000 and Net Income for 1997 was $ 420,000. The percentage change in Net Income is:

a. 1%

b. 3%

c. 5%

d. 10%

Answer = c: The percentage increase in net income is 5%. Simply divide the incremental change of $ 20,000 ($ 420,000 - $ 400,000) by the base period amount of $ 400,000.

Course 2 – Financial Planning and Forecasting

1. In order for budgeting to really work, we must link the budgeting process with:

a. Financial Statements

b. Accounting Transactions

c. Strategic Planning

d. Operating Reports

Answer = c: There is an overall process that must be in place so that everything is linked. This typically starts with planning at a very high level – strategic. Once you have defined a strategy, you can move the process down to operational plan and this in turn should feed your financial planning process or budgets.

2. The first forecast we will prepare for budgeting will be the:

a. Budgeted Income Statement

b. Sales Forecast

c. Cash Budget

d. Budgeted Balance Sheet

Answer = b: Many financial forecasting models will begin with the sales variable since this variable impacts so many of your other financial forecasts. For example, the inventory and assets you need is dependent upon the level of sales you expect. And once you know your asset needs, then you can take a look at how you will finance these assets.

3. Taylor Manufacturing has compiled the following production information for manufacturing jugs of beverages:

Planned production is 6,000 jugs
Materials required per jug: 10 pounds of powder
Desired Ending Inventory for Materials: 4,000 pounds
Beginning Inventory for Materials: 3,000 pounds
Purchase Cost for Materials: $ 2.00 per pound

Based on the above information, what is the total cost for planned materials purchased?

a. $ 110,000

b. $ 120,000

c. $ 122,000

d. $128,000

Answer = c: During the period, Taylor Manufacturing will need to have 60,000 pounds of powder (6,000 per jug x 10 pounds per jug). We already have 3,000 pounds of powder on hand per our beginning inventory and we want to have 4,000 pounds on hand going into the next period. So you can work through the calculation as follows:

Planned production requirements . . . . . 60,000 (pounds of powder)
Less inventory already on hand . . . . . .(3,000)
Plus desired inventory at end 4,000
Planned purchases 61,000
Cost per pound . . . . . x $ 2.00 (cost per pound)
Planned purchase amount . . . $ 122,000

4. Which of the following detail budgets will help us prepare the Budgeted Income Statement?

a. Direct Labor Budget

b. Cash Budget

c. Budgeted Balance Sheet

d. Year End Balance Sheet

Answer = a: The Income Statement is derived by looking at your planned income and costs for the period. So the Direct Labor Budget will represent part of your future costs and this should get reflected into your Budgeted Income Statement.

5. If accounts payable have historically been 20% of sales and we have estimated sales of $ 200,000, than estimated accounts payable must be:

a. $ 10,000

b. $ 20,000

c. $ 30,000

d. $ 40,000

Answer = d: Simply multiply 20% x $ 200,000 = $ 40,000.

6. Which budget is prepared for determining how much external financing we will need to support estimated sales?

a. Cash Budget

b. Budgeted Income Statement

c. Budgeted Balance Sheet

d. Sales Forecast

Answer = c: In order to arrive at your financing needs, you will need to prepare a Budgeted Balance Sheet since this statement reflects the two principal sources of financing, debt and equity.

7. A good place to start in preparing the Budgeted Balance Sheet is with the main link between the Income Statement and the Balance Sheet. This link is:

a. Cash

b. Retained Earnings

c. Current Assets

d. Long Term Liabilities

Answer = b: Since Net Income is closed out to Retained Earnings, this should represent your link between the Income Statement and the Balance Sheet.

8. One way to improve the budgeting process is to include qualitative techniques into forecasting. Which of the following is an example of a qualitative technique?

a. 5 Year Trend Analysis

b. Ratio Analysis

c. Percent of Sales Method

d. Interviewing the President of the Company

Answer = d: Quantitative characteristics tend to be hard numbers that are measured some how – such as trends, ratios, and percentages. Qualitative characteristics are softer type factors that you can include into planning and budgeting, such as getting the opinions of experts on what they expect to happen.

9. Statistical methods can be used to improve the accuracy of forecasting. This approach is particularly useful for forecasting sales since we are searching for the right fit based on several observations. One popular approach to finding the right statistical fit is to use:

a. Exponential Smoothing

b. Regression Analysis

c. Executive Polling

d. Moving Average

Answer = b: Regression analysis looks at relationships between variables. The tighter the fit, the higher the relationship and thus, regression analysis can be very useful for forecasting the output of one variable given the input of another variable.

10. Which of the following will contribute to making budgeting a non-value added activity; i.e. the cost of budgeting exceeds the benefit?

a. The budgeting process is included within the strategic planning process.

b. Detail and Summary Budgets are prepared at the same time and are distributed to management for approval.

c. Budgets throughout the organization are automated for enterprise-wide consolidation.

d. Line item detail in budgets is based on material thresholds.

Answer = b: Before you waste time preparing detail budgets at a department or division level, you have to agree on the high level budgets, such as the enterprise or business unit budget. Once you have approved budgets at a high level, you can then allocate funds down for preparation of lower level budgets.

Course 3 – Capital Budgeting Analysis

1. Capital budgeting analysis consists of three distinct stages. The first stage is:

    a. Discounted Cash Flows

    b. Simulation

    c. Decision Analysis

    d. Net Present Value

Answer = c: Decision analysis is a process whereby you evaluate your options, variables and other attributes associated with the decision. You need to define this framework before you start estimating costs and benefits which in turn feeds your economic analysis (Net Present Value).

2. The ability to postpone, delay, alter or abandon a project adds value to the project. This value is referred to as:

    a. Relevant cash flows

    b. Attribute value

    c. Net Present Value

    d. Option Pricing

Answer = d: Option pricing gives an investment better capacity for change and since so many investments have changing requirements once launched, the opportunity to pursue another option increases the value of the investment.

3. The time value of money is important for three reasons. These three reasons are:

    a. Inflation, uncertainty, and opportunity costs.

    b. Relevancy, stability, and consistency.

    c. Project returns, costs, and timing.

    d. Project options, positions, and variables.

Answer = a: Three fundamental reasons behind the need for discounting (accounting for the time value of money) are: 1) Adjusting for the impacts of inflation or loss in purchasing power over time, 2) Risk and uncertainty over time, and 3) Lost opportunities to invest the money if you had access to the funds today.

4. Which of the following is relevant in determining the cash flows of a project?

    a. Sunk costs

    b. Depreciation

    c. Payback period

    d. Net Present Value

Answer = b: In order to arrive at cash flows, you may have to adjust for non-cash flow cost items such as depreciation.

5. You are about to invest $ 15,000 into a project that will generate $ 5,500 of cash flows each year for the next 3 years. If your cost of capital is 11%, then the present value of future cash flows is: (refer to Exhibit 2 for present value tables)

    a. $ 23,218

    b. $ 13,442

    c. $ 11,612

    d. $ 10,808

Answer = b. Multiply the $ 5,500 cash flows by the appropriate discount factors and sum the discounted cash flows:

Cash Inflow - Year 1	5,500	0.90090	$	4,954.95
Cash Inflow - Year 2	5,500	0.81162	$	4,463.92
Cash Inflow - Year 3	5,500	0.73119	$	4,021.55
		Total	**$**	**13,440.43**

6. Referring back to question 5, the Net Present Value of the project is:

    a. $ 6,418

    b. $ 8,218

    c. $ (1,558)

    d. $ (4,192)

Answer = c: The initial cash outflow is (15,000) offset by the total discounted cash flows of $ 13,442 per the previous question = (1,558).

7. You are considering investing in a new cotton-bailing machine. The purchase price of new bailer is $ 10,000. It will cost $ 750 to transport the bailer to your location. The old bailer will be sold for $ 2,000 and your tax rate is 40%. The net investment for this project is:

    a. $ 11,950

    b. $ 10,750

    c. $ 9,550

    d. $ 8,950

Answer = c: The total cost of the investment is $ 10,000 + $ 750 for transportation. This cost gets offset by a salvage value for the old asset which is $ 1,200 ($ 2,000 less $ 800 paid for taxes). Therefore, the net investment amount is $ 9,550 ($ 10,750 - $ 1,200).

8. In addition to using Net Present Value to evaluate a project, another good economic criteria that can be used is:

    a. Accounting Rate of Return

    b. Modified Internal Rate of Return

    c. Simple Payback

    d. Return on Investment

Answer = b: Modified Internal Rate of Return is another good economic indicator for evaluating a capital investment.

9. One method for managing project risk is to use:

    a. Sensitivity Analysis

    b. Discounted Payback

    c. Net Investment

    d. Project Turnover

Answer = a: Sensitivity analysis can be used to analyze how changes can impact a project.

10. An additional risk usually associated with an international project is:

    a. Project payback

    b. Direct Labor Changes

c. Installation Costs

d. Foreign Exchange Rate Risk

Answer = d: Changes in the value of foreign currencies over time can introduce additional risk to international projects.

Course 4 – Managing Cash Flow

1. When it comes to managing the disbursement cycle, the objective is to:

    a. Shorten the disbursement cycle.

    b. Lengthen the disbursement cycle

    c. Equalize disbursements with receipts.

    d. Borrow for all disbursements.

Answer = b: You want to lengthen the time you have to disburse funds so you have use of these funds. For example, you gain nothing by paying invoices early to vendors.

2. One way of decreasing the collection time for cash receipts is to:

    a. Accept cash payments only.

    b. Issue vendor payments immediately.

    c. Invoice customers quickly.

    d. Treat all customers the same.

Answer = c: For sales that involve collection, you will want to invoice the customer as quickly as possible in order to collect the cash.

3. We can estimate total cash flow cycle times by calculating three ratios: (a) Average Days in Accounts Receivable, (b) Average Days in Inventory and (c) Average Days in Accounts Payable. Using these three ratios, the formula for calculating the total cash flow cycle time would be:

    a. (a) - (b) - (c)

    b. (a) + (b) + (c)

    c. (a) x (b) x (c)

    d. (a) + (b) - (c)

Answer = d: The time cash is tied up in receivables and inventory is added to your cycle time while the time related to disbursements would be subtracted to arrive at the net overall cycle time for all cash.

4. The amount of cash that should be held is a function of four amounts: Transaction Amount (includes compensating balances), Precautionary Amount, Speculative Amount, and Financial Amount. As a general rule, the minimal amount of cash that should be held is:

    a. Transaction Amount

    b. Speculative Amount

    c. Transaction Amount + Precautionary Amount

    d. Speculative Amount + Financial Amount

Answer = c: As a minimum you need to have enough cash on hand to cover your anticipated transactions requiring cash + you want to hold a reserve amount as a pre-caution for unplanned disbursements.

5. Assume the following: Beginning Cash on Hand is $ 4,000, projected cash inflows are $ 28,000 and projected cash outflows are $ 39,000. You want to have an ending cash balance of $ 2,000. What is your total projected cash deficit?

    a. $ 11,000

    b. $ 4,000

    c. $ 7,000

    d. $ 9,000

Answer = d: Simply calculate your ending cash balance per your beginning balance and changes to cash flow and then add to this amount your desired ending balance:

Beginning Cash Balance	$ 4,000
Increase or Inflows	+28,000
Decrease or Outflows	-39,000
Deficit Balance	- 7,000
Desired Ending Balance	2,000
Total Deficit	9,000 (covers both the 7,000 deficit + gets you to the desired balance of $ 2,000)

6. Spontaneous financing or trade credit is simply a way of obtaining more cash by:

    a. Establishing a Line of Credit

b. Lengthening the Disbursement Cycle

c. Borrowing against your assets

d. Selling your receivables

Answer = b: If you do things to simply lengthen your cash outflows, then you are creating instant or spontaneous sources of credit or cash.

7. Two common ways of borrowing against accounts receivable are:

    a. Factoring and Assignment

    b. Trust Receipts and Blanket Liens

    c. Leasing and Buy Backs

    d. Warranties and Options

Answer = a: Factoring is selling off the face value of a receivable account to another company which will collect the receivable amount. Assignment is partial transfer of ownership of the account to another company for the purpose of collecting the account.

8. In order to arrange financing against your inventory, your inventory must be:

    a. Slow moving

    b. Certified by the IRS

    c. Highly Marketable

    d. Obsolete

Answer = c: If you expect to borrow against an asset like inventories, you must be highly marketable; i.e. the lender can seek recourse and get some measure of repayment by selling off the inventory.

9. Your company has two major customers, Ajax and Miller. Ajax owes you $ 10,000 and Miller owes you $ 20,000 for the current month. Collection probabilities show that Ajax pays 70% of the time in the current month and 30% of the time the following month. Collection probabilities show that Miller pays 40% of the time in the current month and 60% of the time in the following month. Using expected values, what is the total amount of cash receipts for the current month?

    a. $ 10,000

    b. $ 15,000

    c. $ 7,000

d. $ 3,000

Answer = b: $ 15,000. The Ajax account is expected to pay you $ 7,000 in the current month ($ 10,000 x .70). The Miller account is expected to pay $ 8,000 ($ 20,000 x .40). $ 7,000 + $ 8,000 = $ 15,000.

10. One of the early warning signs of cash flow distress is:

a. High inventory turnover

b. Early distribution of payroll checks

c. Late vendor payments

d. Excessive cash balances

Answer = c: Failure to pay vendors on time might be an early sign of distress with cash flows within the business.

Course 6 - The Management of Capital

1. The cost a business must pay for the use of long-term funds is called the:

a. Indifference Point

b. Cost of Capital

c. Prime Lending Rate

d. Risk Free Rate of Return

Answer = b. The Cost of Capital is the implied cost you must pay for the use of funds. The use of funds on a short-term basis usually takes the form of liquid assets and there may not be implied costs associated with these sources. However, there are real costs for obtaining funds from shareholders (who require a rate of return on their investments) and long-term debt (interest payments for loans).

2. One of the advantages of issuing debt over equity is that debt:

a. Has no maturity date.

b. Reduces risk.

c. Requires no fixed payments.

d. Has a tax deduction for interest payments.

Answer = d: Interest is a tax deduction and thus the effective rate you pay on debt is lower than the face value paid. There is no deduction for payments made to shareholders, such as dividends or distributions to owners.

3. When a company uses increased fixed costs for production, this is an example of what type of leverage?

    a. Operating Leverage

    b. Financial Leverage

    c. Variable Cost Leverage

    d. Money Market Leverage

Answer = a: Operating leverage is the use of more fixed costs associated with the operations of the business, such as the manufacturing of products.

4. According to the pecking order, which of the following sources of capital would managers use first?

    a. Bonds (Debt)

    b. Common Stock

    c. Preferred Stock

    d. Retained Earnings

Answer = d: Internal sources are used first such as retained earnings as opposed to external sources of financing (issuing debt or equity).

5. Delphi Corporation has common stock with a listed beta coefficient of 1.40. U.S. Treasury Bonds are paying 6.2% and the overall market rate according to Standard and Poor's is 13.5%. Using the Capital Asset Pricing Model (CAPM), the cost of common stock is:

    a. 10.22%

    b. 13.50%

    c. 16.44%

    d. 18.33%

Answer = c: 16.44%. Cost of using common stock is 6.2% + (1.40 x (13.5% - 6.2%)).

6. Gemini Corporation has summarized its capital structure as follows:

Component	Cost of Capital	Market Value
Long-term Bonds	5.8% after tax	$ 150,000
Common Stock	12.5%	$ 450,000

Based on the above information, Gemini's weighted average cost of capital is:

a. 10.83%

b. 11.50%

c. 16.70%

d. 12.50%

Answer = a: Multiply the market weights by each cost of capital component to arrive at the weighted average cost of capital:

5.80% x ($ 150,000 / $ 600,000) = 1.450%
12.50% x ($ 450,000 / $ 600,000) = 9.375%
Weighted Average Cost of Capital 10.825 or 10.83%

7. Fleming Corporation has plans to raise $ 2 million in capital by issuing 50,000 shares of $ 20.00 common stock and by issuing $ 1 million in bonds @ 12% interest. Fleming's tax rate is 40%. Fleming expects EBIT (Earnings Before Interest Taxes) of $ 4.5 million and its current capital structure consists only of common stock - 250,000 shares outstanding. What will EPS (Earnings per Share) be after the financing plan?

   a. $ 6.67

   b. $ 7.97

   c. $ 8.76

   d. $ 9.00

Answer = c: $ 8.76. Start with EBIT of $ 4,500,000 and deduct interest of $ 120,000 ($ 1,000,000 in bonds x 12%) = $ 4,380,000 taxable income less taxes of $ 1,752,000 ($ 4,380,000 x 40% tax rate. Divide Net Income of $ 2,628,000 by total outstanding common shares of 300,000 (250,000 shares + 50,000 new shares issued).

8. A common method for assessing risk associated with financing plans is to calculate:

   a. Beta Coefficient

   b. Marginal Cost of Capital

c. Breakeven EPS

d. Coverage Ratios

Answer = d: As you implement a financing plan you will need to evaluate your coverage or liquidity and leverage ratios to see if you have increased risk too much.

9. When a privately held company decides to "go public", it must go through a process known as:

    a. Initial Public Offering

    b. Debt for Equity Swap

    c. Stock Buyback Program

    d. Option Selling

Answer = a: Initial Public Offerings transform private companies into publicly traded companies.

10. When a company raises capital by selling directly to investors without a formal registration with the SEC (Securities & Exchange Commission), this is called a:

    a. Selected Capital Agreement

    b. Private Placement

    c. Short-term Financing Arrangement

    d. Seasoned Filing of Securities

Answer = b: A private placement of securities is not subject to the same significant registration rules associated with public offerings.

Course 7 - Mergers and Acquisitions (Part 1)

1. Etco Energy and Baltic Energy have decided to merge. Both companies provide similar products and services. This type of merger is called a:

    a. Diagonal Merger

    b. Conglomerate

    c. Horizontal Merger

d. Vertical Merger

Answer = c: Horizontal mergers involve companies selling similar products and services.

2. Synergy values are the additional values that companies realize through a merger and acquisition. Synergy values can take three forms. Generally speaking, the most significant and common form of synergy is:

    a. Higher Cost of Capital

    b. Lower Expenses and Cost

    c. Higher Production Efficiencies

    d. Lower Cost of Capital

Answer = b: Most mergers create value by simply reducing redundancies in the combined cost structure of the newly formed company.

3. Once a company completes the Pre-Acquisition Review, the next phase within the merger and acquisition process is to:

    a. Search and screen target companies

    b. Integrate the two companies

    c. Initiate Phase II Due Diligence

    d. Execute a Merger & Acquisition Agreement

Answer = a: Once a company makes a decision to pursue a merger for growing the company, the next step would be to research likely candidates or targeted companies.

4. Many mergers begin through a series of negotiations between the two companies. If the two companies decide to seriously investigate the possibility of a merger, they will launch Phase II Due Diligence and execute a:

    a. Post Merger Contract

    b. Formal Joint Conference

    c. Merger & Acquisition Agreement

    d. Letter of Intent

Answer = d: The two companies should sign a Letter of Intent to officially initiate a stronger level of due diligence before moving to the next phase in the merger and acquisition process.

5. Either party in a merger and acquisition may be entitled to indemnification because of a significant misrepresentation. Indemnification is usually not due until a certain threshold has been reached. This threshold amount is often called the:

    a. Reciprocal Amount

    b. Basket Amount

    c. Striking Price

    d. Closing Rate

Answer = b: Basket Amount

6. You have been asked to determine if a proposed merger between Dystan and Systel could raise anti-trust concerns with the U.S. Justice Department. Based on market research, you have determined that all of the competing companies have the following market shares:

Company	Market Share
Dystan	10%
Fabco	20%
Lytmar	30%
Systel	10%
United	10%
Zabor	10%

Using the Herfindahl-Hirschman Index (HHI) as your test, the point change between the pre-merger HHI and the post merger HHI is:

    a. 50 points

    b. 100 points

    c. 200 points

    d. 350 points

Answer = c: 200 points. The pre-merger and post-merger HHI are calculated below:

Dystan 10% x 10% = 100	Dystan / Systel 20% x 20% = 400
Fabco 20% x 20% = 400	Fabco 20% x 20% = 400

Lytmar 30% x 30% = 900	Lytmar 30% x 30% = 900
Systel 10% x 10% = 100	
United 10% x 10% = 100	United 10% x 10% = 100
Zabor 10% x 10% = 100	Zabor 10% x 10% = 100
Pre Merger HHI = 1,700	Post Merger HHI = 1,900

The difference between the pre-merger HHI and the post merger HHI is 200 (1,900 – 1,700)

7. On March 3, 1998, Miser Steel made a tender offer to acquire Reliance Steel. Miser's tender offer is set to expire on March 23, 1998. On March 21, 1998, another company called Ohio Steel made a tender offer to acquire Reliance Steel. Based on consideration of Ohio Steel's tender offer, the closing date for Miser Steel's tender offer is:

    a. March 21, 1998

    b. March 23, 1998

    c. March 25, 1998

    d. March 31, 1998

Answer = d: The closing date gets extended 10 days from the date of the last offer which is March 21, 1998 + 10 days = March 31, 1998.

8. Due diligence requires the collection of a lot of information. Which of the following information types would be **least** important for due diligence to work properly?

    a. Employment Records of Target Company

    b. Property Records of Competing Companies

    c. Financial Records of Target Company

    d. Property Records of Target Company

Answer = b: Competing company records would not be nearly as important as examining records of the target company.

9. Due diligence will attempt to restate financial statements in relation to what will take place after the two companies merge. One area of particular concern as it relates to the Balance Sheet is:

    a. Proper Valuation of Cash

    b. Par Value Assigned to Stock

c. Selection of Depreciation Methods

d. Possible Understatement of Liabilities

Answer = d: An understatement of liabilities, such as unrecognized contingent liabilities, is of particular concern when restating the Balance Sheet.

10. Due diligence is particularly important in the case of a reverse merger since it is necessary to "clean the Shell Company." One important aspect of cleaning the Shell Company is to:

    a. Confirm ownership of the Shell Company

    b. Identify cultural and social issues

    c. Plan for long-term integration

    d. Evaluate human resource capital

Answer = a: It can be important to identify who owns the company since the shell of a company that is selling public has potential problems and these to be investigated back to the owners.

Course 7 - Mergers and Acquisitions (Part 2)

1. Assuming we are valuing a going concern, which of the following types of income streams would be most appropriate for valuing the company?

    a. Earnings Before Interest and Taxes

    b. Free Cash Flows

    c. Operating Income After Taxes

    d. Price to Earnings Ratio

Answer = b: Cash flows are often used in a Discounted Cash Flow model to assign a value to a company. The best form of cash flow for the Discounted Cash Flow model is free cash flow; i.e. how much residual cash do you have after you have paid everyone.

2. The following estimates have been made for the year 2006:

Operating Income (EBIT)	$ 6,000
Depreciation	500
Cash Taxes to be paid	950
Income from non operating assets	60

No capital investments or changes to working capital are expected. Based on this information, the projected free cash flows for 2006 are:

a. $ 5,610.

b. $ 4,550.

c. $ 4,490

d. $ 6,550

Answer = a: $ 6,000 + $ 500 non cash flow item - $ 950 cash outflow + $ 60 cash inflow = $ 5,610.

3. Marshall Company is considering acquiring Lincoln Associates for $ 600,000. Lincoln has total outstanding liabilities valued at $ 200,000. The total purchase price for Marshall to acquire Lincoln is:

a. $ 200,000

b. $ 400,000

c. $ 600,000

d. $ 800,000

Answer = d: The value of debt assumed must be paid in addition to the cost of acquiring ownership in the target company which is $ 200,000 + $ 600,000 = $ 800,000.

4. The Valuation Process will often analyze several value drivers in order to understand where value comes from. Which of the following value drivers would be **least** important to the valuation?

a. Return on Invested Capital

b. Earnings per Share

c. Cash Flow Return on Investment

d. Economic Value Added

Answer = b: Since earnings has several distortions in relation to cash flows and how returns or economic income gets generated, Earnings per Share would be the least important of the value drivers.

5. You have been asked to calculate a terminal value for a valuation forecast. The normalized free cash flow within the forecast is $ 11,400. A nominal

growth rate of 3% will be applied along with a weighted average cost of capital of 15%. Using the dividend growth model, the terminal value that should be added to the forecast is:

a. $ 78,280

b. $ 86,200

c. $ 95,000

d. $ 97,850

Answer = d: $ 11,400 x 1.03 = $ 11,742 extended annual cash flow beyond the forecast period. Divide this amount by the cost of capital less the growth rate or 12% (15% - 3%). $ 11,400 / .12 = $ 97,850

6. Information from a valuation model for Gemini Corporation is summarized below:

Total present value of forecasted free cash flows	$ 150,000
Terminal value added	450,000
Total present value of non-operating assets	20,000
Total present value of outstanding debts	120,000

If Gemini has 20,000 shares of outstanding stock, the value per share of Gemini is:

a. $ 15.00

b. $ 25.00

c. $ 30.00

d. $ 35.00

Answer = b: ($ 150,000 + $ 450,000 + $ 20,000 - $ 120,000) / 20,000 shares = $ 25.00

7. Once a merger has been finalized, one of the primary responsibilities of senior executive management as it relates to post merger integration is to:

a. Facilitate functional integration

b. Develop personnel retention programs

c. Lead change through communication

d. Manage all of the integration projects

Answer = c: Senior leadership and executive will need to work hard at communicating what changes will take place, when and how they will get implemented. Mergers super-impose a lot of change on the organization and this must be coordinated and communicated throughout the company from above.

8. One of the challenges within post merger integration is to retain key (essential) personnel. Which of the following might help retain key personnel?

    a. Assign personnel to new locations

    b. Invite personnel to management meetings

    c. Offer personnel severance packages

    d. Recruit personnel differently than normal

Answer = b: Having personnel participate in key meetings might help retain essential personnel. If people have some say in how management makes decisions, this softens the blow and also gives managers an important reality check to ensure they don't depart.

9. Which of the following can be used as a poison pill for preventing a merger and acquisition?

    a. Issuing special rights to shareholders

    b. Offering golden parachutes to executives

    c. Buying back all of the outstanding stock

    d. Adopting a super-majority for mergers

Answer = a: The so-called "poison pill" often takes the form of special rights issued to shareholders.

10. Which of the following represents a change to the corporate charter, designed to discourage a change in management?

    a. Offering greenmail to selected shareholders

    b. Entering into a standstill agreement

    c. Going private through a leveraged buyout

    d. Staggering the terms of board members

Answer = d: Staggering the service periods of board members can lock-in a certain number of board members.

Course 8 – Creating Value through Financial Management

1. Accounting and Financial Functions usually do not spend sufficient time on "real" financial management. An example of "real" financial management as opposed to accounting would be:

    a. Posting accrual entries to the General Ledger

    b. Benchmarking financial and economic performance

    c. Issuing invoices to customers

    d. Processing timesheets for payroll

Answer = b: Finance is more analytical and benchmarking would be more financial oriented as opposed to the processing of transactions which is accounting related.

2. In order to determine the value of an organization, which of the following would be most important?

    a. Current year's gross sales

    b. Net Income for the last 5 years

    c. Future expected cash flows

    d. Growth in assets

Answer = c: An understanding of the future expected cash flows would be important in analyzing the value of a business.

3. Mergers are a type of financial restructuring that may or may not result in higher values. One reason mergers fail to generate higher value is due to the fact that the acquiring company has:

    a. Paid too much for the target company

    b. Successfully completed due diligence

c. Increased debt financing

d. Will issue stock for the acquisition

Answer = a: It is not unusual for a company to pay too much in acquiring another company. The best companies are typically not for sale and if they to exist, they command a premium price in the marketplace.

4. One way a large diversified company can create value is to issue new stock to shareholders for a new separate company. This type of restructuring is referred to as a:

    a. Liquidation

    b. Merger

    c. Leveraged Buy Out

    d. Spin Off

Answer = d: A large diversified company may increase value by spinning off pieces of the company and issuing new stock for the separate pieces.

5. Value Based Management is a formal approach to managing the organization for the creation of value. In order to successfully implement Value Based Management, it must :

    a. Follow existing accounting principles

    b. Be driven by top management

    c. Have conformity with financial statements

    d. Adjust to existing legacy systems

Answer = b: The senior leadership and management must get behind an emphasis on value; otherwise it becomes isolated to a division, department or other organizational unit that is pushing the cause and its success will be severely limited.

6. Stock prices may not fairly represent the value of a company because stock prices are influenced by:

    a. Delays in the release of earnings

    b. Market forces such as higher inflation

    c. Whisper estimates made by investors

d. Perceptions about management effectiveness

Answer = b: Stock prices can change from several market forces, such as a downturn in the economy. Management has little control over the impacts from market forces.

7. Economic Value Added (EVA) is a popular approach to measuring how much value was created. Assume we have NOPAT (Net Operating Profits After Taxes) of $ 100,000. After making all equity equivalent adjustments, we have calculated Total Adjusted Capital of $ 750,000. If weighted average cost of capital is 12%, then EVA is:

   a. $ 650,000

   b. $ 150,000

   c. $ 88,000

   d. $ 10,000

Answer = d: Deduct the cost associated with capital of $ 90,000 ($ 750,000 x .12) from NOPAT of $ 100,000 = $ 10,000.

8. Unlike EVA, we can improve on the accuracy of measuring value by recognizing the impact of inflation on both cash inflows and the outflows for investment. Which of the following approaches to measuring value accounts for the impact of inflation in measuring value?

   a. Cash Flow Return on Investment

   b. Return on Net Assets

   c. Return on Net Income

   d. Accounting Rate of Return

Answer = a: Cash Flow Return on Investment or CFROI includes provisions for adjusting for inflation.

9. What is the Residual Cash Flow for an investment costing $ 50,000 with adjusted operating cash flows of $ 15,000 and a cost of capital of 14%?

   a. $ 2,500

   b. $ 8,000

   c. $ 12,900

   d. $ 25,000

Answer = b: Deduct the financing costs of $ 7,000 ($ 50,000 x .14) from the operating cash flows of $ 15,000 = $ 8,000.

10. Most elements of value creation tend to be incremental; i.e. they may not be long term sources of value. The most important long term element of value creation is:

    a. Improving the production process

    b. Issuing high levels of debt

    c. Innovative strategizing

    d. Cost cutting programs

Answer = c: The ability to innovate and refresh your products and services can be invaluable to creating value. Other drivers of value such as cost cutting or restructuring have very short lived impacts on value.

Course 10 - Strategic Planning

1. Strategic Planning is a process whereby management makes choices about overall direction. One such choice within strategic planning is establishing the:

    a. Goals of the organization

    b. Financing of capital assets

    c. Distribution of stock dividends

    d. Election of Officers

Answer = a: A major output of the strategic planning process is the establishment of goals.

2. Strategic Planning should be used for each of the following **except** for:

    a. Finding a vision for the organization

    b. Determining future strategies or objectives

    c. Getting the organization out of crisis

    d. Managing the long-term future

Answer = c: A company in crisis may need a turn-around plan which is immediate and short-term. If the company can survive the crisis, then it may want to engage in a new long term strategy.

3. Strategic Planning can result in change and people often resist change. People's resistance to change can be reduced by:

    a. Making the planning process extremely formal.

    b. Categorizing the process as re-engineering.

    c. Making the process very experimental.

    d. Getting people involved within the process.

Answer = d: People need to have a say in things that impact them; otherwise they will not buy-in and execute on the decisions.

4. The first real phase of strategic planning is:

    a. Issuing the Draft Plan

    b. Organizing the Process

    c. Approving the Plan

    d. Developing the Operating Plan

Answer = b: You have to start by deciding how you will work through the process. For example, you want to go through an assessment of your strengths, weaknesses, opportunities, and threats.

5. In what phase of strategic planning does identification of strengths and weaknesses take place?

    a. Organizing

    b. Approval of the Plan

    c. Assessment

    d. Implementation

Answer = c: Assessment is taking a hard look at yourself in relation to the external and internal environment.

6. A good mission statement should:

    a. Be extremely specific for measurement

b. Have references to management

c. Outline the tactics of the organization

d. Set direction for the organization

Answer = d: The mission statement should express the overall direction of the organization.

7. Each of the following is important for developing strategic objectives **except**:

    a. Tradeoffs between upper and lower management

    b. How the organization got started

    c. Review of available resources

    d. Strengths and weaknesses of the organization

Answer = b: How the organization was founded in the past is probably not relevant to the current and future of the organization.

8. Marco Corporation has included the following statement within its strategic plan: *By December 31st, the Production Department will re-align the Eastern Distribution System to better serve markets in Canada*. This statement is an example of a:

    a. Strategic Goal

    b. Mission Statement

    c. Organizational Weakness

    d. Principle or Value

Answer = a: This is a goal within the organization involving organization re-alignment to better server a specific market.

9. Which of the following controls can help evaluate the performance within an Operating Plan?

    a. Organizational Charts

    b. Budgets

    c. Bank Reconciliation's

    d. Audit Reports

Answer = b: Operating plans will get quantified in terms of budgets and people will be held accountable for execution of their operating plans and budgets.

10. To help manage unplanned events or "what if" type events, Operating Plans should include:

    a. Approvals by Shareholders

    b. References to Old Plans

    c. Contingency Plans

    d. Profiles of the Organization

Answer = c: A contingency plan is useful for a possible unexpected scenario that may arise.

Course 11 - The Balanced Scorecard

1. Balanced scorecards consist of four inter-related perspectives. Which perspective or layer will be the main driver or enabler for outcomes within the financial perspective?
    a. Learning & Growth
    b. Customer
    c. Programs
    d. Templates

   Answer = b: The customer will buy goods and services and thus, this perspective would drive or impact what takes place at the financial perspective layer.

2. The Balanced Scorecard process captures a cause and effect relationship based on having all parts linked together. Strategic areas link down to goals, strategic goals link down to strategic objectives, and strategic objectives are linked to:
    a. Mission
    b. Goals
    c. Budgets
    d. Measurements

   Answer = d: Your objectives should be expressed in terms that imply the measurement and targets. This helps ensure strong linkage between what you are measuring and what you are trying to achieve strategically.

3. Mason Corporation has developed the following three strategic objectives for its balanced scorecard:
    A = Employee involvement will be enhanced through a new matrix realignment of the organization.

B = Customer confidence will be expanded through more personal approaches to service.
C = The product delivery system will be expanded to include all new product lines.

Where should Mason Corporation place these three objectives within its strategic grid?

	Customer	Internal Processes	Learning & Growth
a.	A	C	B
b.	C	B	A
c.	B	C	A
d.	B	A	C

Answer = c: A or Employee Involvement is related to the Learning & Growth perspective or layer in the scorecard map or grid. B or Customer confidence is related to the Customer perspective and C or expansion of the product delivery system is related to internal processes.

4. There are two types of measurements: Leading Indicators (lead to end results) and Lagging Indicators (the end results). Which perspective of the Balanced Scorecard would most likely use leading type measurements?
    a. Financial
    b. Customer
    c. Internal Processes
    d. Learning & Growth

    Answer = d: If you drill down to lower levels of your scorecard model, such as the Learning & Growth perspective, then you would expect to see more leading type indicators, such as a leadership development program for key managers. The top part of the scorecard model, such as Financial, would have lag indicators such as Return on Sales.

5. Triple K Construction is developing a balanced scorecard. One of the goals for Triple K Construction is: We will meet or exceed the expectation of our customers by providing commercial construction projects that are on time and on budget. Which of the following strategic areas fits with this goal?
    a. Commitment to Community
    b. Customer Satisfaction
    c. Shareholder Value
    d. Employee Productivity

    Answer = b: Delivery that meets or exceeds customer expectations would be related to customer satisfaction levels.

6. Triple K Construction has the following strategic objective: We will meet the completion dates on all new construction projects beginning

in the year 2003. Which of the following measurements provides the best fit with this strategic objective?

a. Percentage of projects completed on time
b. Total number of projects in progress
c. Construction cost to revenue ratio
d. Overall customer satisfaction index

Answer = a: The measurement and the objective should fit tightly together. You should be able to understand the objective by simply reading the measurement. If you are measuring percentage of completions that were on time, the you would expect a performance objective related to this measurement.

7. JGT Enterprises has compared its existing programs against its strategic objectives. If a program impacts a strategic objective, then the intersecting box is filled in on the following template:

Assess Strategic Impact of Programs against strategic objectives **Objectives**	**Progra**	Automated	Capital Additions	Market Study	Cross Function	Product Research
Improve Delivery Times		■				
Introduce New Product Features						■
Reduce Distribution Costs		■				
Retool Production Process			■			
Enhance Quality Control		■	■			
Increase Employee Involvement					■	

Which program has the most (highest) strategic impact and which program has the least (little or no) strategic impact on the strategic objectives?

	Most Strategic Impact	Least Strategic Impact
a.	Product Research	Cross Functional
b.	Automated Distribution	Market Study
c.	Product Research	Market Study
d.	Automated Distribution	Product Research

Answer = b: Automated Distribution has three strategic impacts per the matrix and the Market Study has none.

8. _____ are tools (usually spreadsheets) for capturing and organizing much of the data that goes into building the Balanced Scorecard

a. Templates
b. Indexes

c. Goals
d. Ratios

Answer = a: Templates are used to help collect and organize data used in balanced scorecards.

9. Balanced scorecards are appropriate for which type of organization?
   a. Private sector businesses.
   b. Non-profit organizations.
   c. Government agencies.
   d. Any organization concerned about the execution of its strategy.

Answer = d: Any organization that has a strategy should consider using the Balanced Scorecard to measure and monitor strategic execution.

10. Unlike the Balanced Scorecard, the Performance Prism captures the cause and effect relationship of strategies, business processes, and capabilities against:
    a. Customers
    b. Stakeholder Groups
    c. Global Competition
    d. Employees

Answer = b: Stakeholder groups are used in the Performance Prism, taking a broader view of performance than the Balanced Scorecard.

Course 12 – Competitive Intelligence Part 1

1. Three information types are described as follows:
   (1): Knowledge that requires some form of action or response
   (2): Public information and statistics about a company
   (3): Analyzed data that is somewhat value added to the decision maker
   For each, categorize it as to Data, Information, or Intelligence:

	Data	Information	Intelligence
a.	(3)	(1)	(2)
b.	(2)	(1)	(3)
c.	(2)	(3)	(1)
d.	(1)	(2)	(3)

Answer = c: (1) is intelligence since you can take action with the information, (2) is basic data about the company which may or may not be very useful, and (3) is more informative information such as taking the data and expressing it as a ratio.

2. Which of the following is an example of primary research?
   a. Interview with critical supplier
   b. Company press release
   c. Legal abstract from court case
   d. Article in Trade Journal

   Answer = a: When you go directly to a source to get information, you have exclusive and primary points in your research. Sources published by others would be secondary.

3. If we follow the 80 / 20 Rule, how should we spend our time between primary and secondary research?
   a. Spend more time on secondary research than primary
   b. Spend more time on primary research than secondary
   c. Spend the same time between secondary and primary
   d. Spend less time on primary research than secondary
   Answer = b: The golden nuggets of information are often found by conducting primary research; however it takes more time than secondary research.

4. Information has numerous sources and these sources have different degrees of reliability. Which of the following sources has the lowest level of reliability for competitive intelligence?
   a. Surveys of key customers
   b. Interviews of CEO's
   c. Observations at Trade Shows
   d. Employee opinions of the Industry

   Answer = d: Employee opinions are probably somewhat subjective and varied; thus they are not very reliable sources for industry analysis.

5. Mertzer Food Company is facing intense competition in a fast moving global marketplace. Past assumptions for competing no longer hold up and Mertzer management is having trouble making the right strategic decisions. The CEO for Mertzer has asked the Competitive Intelligence Group to develop some alternatives for helping Mertzer react to sudden changes in the marketplace. Which of the following analytical approaches would be most helpful to Mertzer's situation?

   a. War gaming
   b. Market share analysis
   c. Scenario analysis
   d. Secondary research

   Answer = c: If a company is faced with sudden changes and little reaction time, then you may have to engage in scenario analysis so you have different options and plans for dealing with the abrupt changes.

6. In an effort to understand an industry, one of the more popular analytical approaches is to look at:
   a. Competitor Profiles
   b. Porter's Five Forces
   c. Cost Trend Curves
   d. Mature Markets

   Answer = b: Porter's Five Forces Model attempts to describe all companies within an industry in terms of: 1) Customers, 2) Suppliers, 3) Substitute products and services, 4) New Competition, and 5) Existing Competition.

7. Competitive intelligence is not about espionage or illegal activities. Therefore, competitive intelligence should not:

    a. Impair a company's reputation
    b. Survey outside suppliers
    c. Use subcontractors for research
    d. Contact CEO's directly

    Answer = a: You should not put your reputation at risk when you engage in competitive intelligence.

8. Which of the following is a potential source for an intelligence attack against your company?

    a. Outside Supplier
    b. Research Analyst
    c. Former Customer
    d. All of the above

    Answer = d: An intelligence attack can take numerous forms, such as a former regulator making inquiries, an analyst requesting information or a potential outside partner who wants sensitive information.

9. Risk management may not be very comprehensive when it comes to identifying and assessing all potential risks to a company. Therefore, it is important for risk management functions to partner with competitive intelligence (CI) since CI will pickup and identify potential risks that are:

    a. Internal within the company
    b. Externally driven outside the company
    c. Both internal and external
    d. Neither internal or external

    Answer = b: Risk management may be too internal in its assessment. You can counter this pitfall by integrating risk management with competitive intelligence since competitive intelligence tends to be very externally focused.

10. You are trying to better understand a specific competitor. This competitor operates in a small local town as the principal employer. You would like to collect some background information from some published sources. Which of the following published sources might be your best source?

    a. Global financial news
    b. National business magazines
    c. Local newspapers
    d. Industry newsletter

    Answer = c: Since the company is small and local, you should consider focusing your research on local newspapers.

Course 12 – Competitive Intelligence Part 2

1. **b:** Define the key intelligence topic – you need to clearly understand the problem you are trying to solve.
2. **d:** Market intelligence will be extremely important for new product launches
3. **a:** SWOT is perhaps the most popular analytical model used since it helps identify core competencies of a company. It is imperative for a company to aggressively defend its core competencies in a competitive environment.
4. **d:** Supply Chain Operations Reference (SCOR) provides an understanding of a supply chain with overlays into levels.
5. **a**: PEST is a good framework for doing an external scan of: Political, Economic, Social, and Technology.
6. **a**: The company is introverted and thinking based on the brief description provided.
7. **d**: Reverse engineering of other products can provide insights into how to design your new product.
8. **b**: Since the company has a very basic and simple product line and since Florida is one of the growth markets, this should be the primary focus of the company when it comes to selling its swim wear.
9. **b**: Continue to invest in Collins for growth, grow Maxim in a limited way, and sell off the Stellar business unit.
10. **b**: If a Business Intelligence system pulls from external sources, it will become better aligned with the Competitive Intelligence System.

Course 13 – Going Public

1. Why is it so important to make a company “liquid” through an IPO?

    a. Realignment of the Balance Sheet

    b. Generate a return for original investors

    c. Improve the company’s image

    d. Secure more control over how the business is managed

Answer = b: Investors will want to cash out from their original investments prior to when the company goes public since they have been sitting on the side lines, waiting to generate a return on their original investment when the company was private.

2. A public infrastructure is critically important to ensuring that the company can function as a public company. Which of the following can help build a public structure for a private held company?

a. Higher customer retention rates

b. Stable cash flows

c. Low overhead costs

d. Publishing audited financial statements

Answer = d: A private company can start to transform itself into a public functioning entity by doing things like publishing audited financial statements. This will make the IPO process easier.

3. The most significant costs associated with an IPO is:

    a. Registration fees

    b. Underwriting fees

    c. Audit fees

    d. Printing the Prospectus

Answer = b: Fees paid to underwriters represent the most significant costs. They are a percentage of the capital raised.

4. It is extremely important to have a great management team. This helps sell the IPO before potential investors. If the management team is weak, one good source for building the management would be:

    a. Wall Street Analyst

    b. Academic Researchers

    c. Retired Senior Executives

    d. MBA Graduates

Answer = c: It is important to sell investors on the fact that the company has some seasoned veterans on the team, giving investors some added confidence about the future success of the company.

5. Which part of the Prospectus provides the investor with an inside perspective from management's viewpoint?

    a. Management Discussion & Analysis

    b. Listing of Proceeds

    c. Risk Factors

d. Market Information

Answer = a: The MD&A (Management Discussion & Analysis) section is management's own assessment of the company.

6. Which of the following IPO Team Members is responsible for pricing the public offering?

    a. Audit Firm

    b. Underwriter

    c. Senior Management

    d. Securities & Exchange Commission

Answer = b: Underwriters typically set the price of the offering.

7. After filing the Registration Statement and addressing comments from the SEC, the company will launch an intense effort to reach potential investors in a series of face to face meetings, commonly referred to as the:

    a. Closing Event

    b. Road Show

    c. All Hands Meeting

    d. Post Registration Conference

Answer = b: Road shows are intense face-to-face efforts at selling the public offering to potential investors.

8. It is not uncommon for the Lead Underwriter to carry an over-allotment of shares, allowing the Underwriter to purchase stock at the initial offering price after the company has gone public. This is referred to as a:

    a. Underwriting Cushion

    b. Trading Bonus

    c. After Market Support Fee

    d. Green Shoe Option

Answer = d: The Green Shoe Option allows the underwriter to purchase shares in an effort to support the offering price.

9. If for some reason the company decides to cancel the IPO and continue as a private company, then it must do so within _____ days of the final registration per Rule 155

    a. 60

    b. 45

    c. 30

    d. 90

Answer = c: 30 days

10. A direct approach to a public offering is available under:

    a. Regulation S-K

    b. Regulation D

    c. Regulation S-1

    d. Regulation X-4

Answer = b: Regulation D is used for public offerings to select groups where the amount raised is often for a project.

Course 15 – Creating Value in the Non Profit Sector

1. Nonprofit organizations need to manage and direct themselves in relation to why the organization exists. Therefore, we need to express the overall purpose of the organization in a very short and concise statement known as the:

    a. Mission Statement
    b. Strategic Plan
    c. Programs
    d. Vision Statement

Answer = a: Mission Statement expresses the overall direction of the organization.

2. A Youth Mentoring Program is using Logic Models to help manage its program. The following attributes are related to the program:

    (1) = Teens volunteered 16 hours of service last month
    (2) = Teens are more aware of how their leadership skills can influence others

(3) = Teens have setup a leadership board to police local schools
(4) = Approximately 500 teens have joined the program

Where should each of these attributes be placed within the Logic Model?

	Input	Output	Short – Term Outcome (Learning)	Medium – Term Outcome (Action)
a.	(1)	(3)	(2)	(4)
b.	(3)	(2)	(1)	(4)
c.	(3)	(4)	(2)	(1)
d.	(1)	(4)	(2)	(3)

Answer = d: (1) Hours worked would be a basic input of the resource, (4) Participation by new members would be a desired output, (2) Awareness is a common outcome that is immediate and short-term in the logic model, and (3) Having teens take action by setting up boards is a more solid mid-range outcome in the logic model.

3. Which of the following responsibilities is probably **not** associated with a nonprofit Board of Directors?

    a. Representing the nonprofit before the public
    b. Overall governance of the organization
    c. Managing social programs
    d. Securing funds and resources for the nonprofit

Answer = c: Board members are not usually involved in the operations of a non-profit such as the management of the programs.

4. Several personal characteristics are associated with effective leadership. Which of the following is least important to effective leadership?

    a. Good listener
    b. Analytical problem solver
    c. Building trust
    d. Great people skills

Answer = b: Analytical problem solving would probably be performed by personnel below the leader.

5. The Girls Leadership Council has the following mission: Create teen girl leaders in local schools. Which of the following measurements would be most appropriate for assessing mission impact?

    a. Number of schools participating in the program
    b. Leadership roles assumed by teen girls
    c. Growth in girl leadership programs
    d. Leadership scores achieved by teen girls

Answer = b: We ultimately want to see teen girls take on leadership positions. This is the final outcome we want to measure.

6. One of the more common methods for collecting measurement data in the nonprofit sector is the use of:

    a. Government research reports
    b. Personal interviews
    c. Surveys
    d. Private sector data

Answer = c: Nonprofits often use surveys to collect data for evaluating the effectiveness of social programs.

7. The Perryville Drug Rehab Program has the following cost data for the most recent year:

    Rent on Facility . . . . . $ 7,800.00
    Paid Staff for Program . . . . . $ 17,500.00
    Printing and Supplies . . . . . .$ 1,200.00
    Indirect Costs Allocated to Program $ 2,600.00

    Data related to participation for the year: 17 people went through the program. At the end of the program, all participants were drug tested and 15 of the 17 participants were drug free. It is estimated that each drug free participant in the program saves the town of Perryville $ 5,000.00 during the current year. Using current year data only, the net benefit of the Drug Rehab Program to the Town of Perryville is:

    a. $ 58,500.00
    b. $ 23,500.00
    c. $ 48,500.00
    d. $ 45,900.00

Answer = d: We can quantify the benefits of the program as $ 5,000 x 15 successful participants = $ 75,000. Subtract from the benefits the costs of the program which is $ 29,100 ($ 7,800 + $ 17,500 + $ 1,200 + $ 2,600). This leaves a net benefit of $ 45,900.

8. From an organization standpoint, the preferred model for performance measurement within the nonprofit sector is:

    a. Financial Matrix Model
    b. Three Tiered Model
    c. The Balanced Scorecard
    d. Program Input Model

Answer = b: Non profits tend to view performance from three tiers as opposed to several perspectives within a scorecard model.

9. Which of the following critical issues is best addressed through a deliberate marketing effort?

    a. Identifying best targets for social services
    b. Evaluating employee performance

c. Measuring financial health of the organization
d. Reporting direct costs of social programs

Answer = a: Marketing research and analysis can help put focus on what segments the non-profit should try to reach.

10. Which of the following initiatives can a nonprofit undertake for protecting the unique advantages of its social programs in a highly competitive market?

    a. Enterprise Resource Planning
    b. Competitive Intelligence
    c. Bottom Up Budgeting
    d. Time Management

Answer = b: Competitive intelligence can help an organization monitor and assess its core advantages in relation to others.

Course 17 – Process Improvement

1. **b**: Converting resources or inputs into outputs is at the core of most processes.
2. **c:** The purpose behind a process is to service a customer. So meeting or exceeding the customer is critical to the process.
3. **a**: Process maps such as swim lanes help depict the flow of a process.
4. **c:** Pareto charts are used to illustrate graphically a ranking or order between elements.
5. **a**: Alternative A has the highest weighted score compared to the other alternatives. Alternative A has a score of 3.10 (1.20+1.50+.40) compared to 3.00 (.90+1.50+.60) for Alternative B and 2.90 (1.50+1.00+.40) for Alternative C.
6. **d**: Level 4
7. **c**: Key Process Areas
8. **b**: Variation
9. **d**: Critical to Quality or CTQ
10. **b**: FMEA

Course 18 – Leadership

1. **c**: Managers
2. **c:** Administering when things get done
3. **d**: Providing for the needs of co-workers
4. **a:** Interpersonal function
5. **b**: Positive attitude in others
6. **b**: Collaborative Leadership
7. **c**: Show respect for others
8. **a:** Tactical Leader
9. **d**: Leadership Practices Inventory or LPI
10. **b**: ECI 360

Course 19 – Managing Projects

1. **b**: Project Charter
2. **d**: Planning
3. **a:** Work Breakdown Structure
4. **c**: Responsibility Assignment Matrix
5. **b**: Scope, Time, and Costs
6. **c**: Earned Value
7. **a:** .75 ($ 120,000 / $ 160,000)
8. **d**: Waterfall
9. **b**: Design, Code and Test to
10. **c**: Enterprise Architecture