

# **MBA** Foundation





### Introduction

The MBA Foundation Examinations measure knowledge and understanding of material covered in Excelsior College's MBA program's five foundational courses, namely—Quantitative Analysis (BUS 503), Finance (BUS 505), Marketing (BUS 506), Organizational Behavior (BUS 553), and Ethics (BUS 523). Students in the MBA program can choose to test out of one or more of these courses by receiving a passing grade (70%) for each exam. If a student passes the exam, the corresponding course requirement is waived; however, no credits will be awarded.

Finance for Managers (BUS 505) is a basic financial management course required in the Excelsior MBA program. The assessment is designed to measure the basic knowledge and understanding achieved by working adults in the area of Finance. Students who have successfully completed an upper-level undergraduate course in Finance with a grade of B or better in the last ten years will not need to take the exam.

The intent of this guide is to provide information on the topics and the reference (textbook) for the exam to students who are planning to take the foundation exam. In addition, the guide includes some sample questions for students to review.

# Important information to help you prepare for this MBA Foundation® Examination

### **General Description of the Examination**

The exam focuses on balancing finance, marketing, and operating decisions for doing business in a multi-currency environment. It also includes the basic role of finance in a corporation and how management decisions are made from the financial perspective.

### **Learning Outcomes:**

The exam objectives support the achievement of the following program learning outcomes:

- 1. Identify and describe the fundamental financial concepts, including those basic accounting concepts necessary for the understanding of finance.
- 2. Apply financial theory and quantitative tools to analyze financial problems.
- 3. Explain how financial decisions should respond to different situations, including changes in the global financial environment.
- 4. Describe Sarbanes Oxley and the impact to the financial markets.
- 5. Describe and evaluate ethical dilemmas that companies often face in pursuing financing and profit.
- 6. Describe and evaluate how the contemporary financial environment affects how investors and financial professionals think about risk.

### **Uses for the Examination**

The School of Business and Technology at Excelsior College recommends that students who receive a passing grade on this examination receive a waiver for the appropriate graduate-level course on Finance (BUS 505).

### **Exam Length and Scoring**

- The exam consists of 100 four-option multiple choice questions.
- The time limit of the exam is two hours.
- This is a non-credit bearing exam.
- Passing grade cut point is 70%.
- Students will be awarded the grade of "Pass" or "Fail."
- Students will only be able to take this specific exam once.

### **Exam Construction and Validity**

Excelsior College assessment experts subject each question to rigorous tests of sensitivity and reliability. In addition, every effort is made to include questions that assess the most common and important topics and skills within the College's current course. A committee of teaching faculty and practicing professionals determine the learning outcomes to be tested. Working with the School of Business and Technology, the Excelsior College Assessment Unit staff oversees the technical aspects of test construction in accordance with current professional standards. To promote fairness in testing, we take special care to ensure that the language used in the exams and related materials is consistent, professional, and user friendly. Editorial staff perform systematic quantitative and qualitative reviews that address accuracy, clarity, and compliance with conventions of bias-free language usage.

#### **Exam Administration**

The exam is administered at Pearson VUE testing centers worldwide. All questions regarding the administration of this exam should be directed to the Test Administration Office at Excelsior College. Students must receive prior approval from their advisors before they can register to take the exam (www.excelsior.edu/messagecenter).

### **Computer-Delivered Testing**

The exam will be delivered by computer at the Pearson VUE Testing Center. You will enter your answers on the computer using either the keyboard or the mouse. The system used for our computer-delivered testing is designed to be as user-friendly as possible, even for those with little or no computer experience.

We strongly encourage you to use the online tutorial prior to taking your exam at Pearson Professional Centers. If you wish to access the tutorial, go to <a href="https://www.excelsior.edu/exams">www.excelsior.edu/exams</a> and click on the ECE Virtual Tour. A tutorial will not be available at the test center.

### **Suggestions for Test Preparation**

At the core of each exam preparation guide is a detailed content outline that begins with a content/percent chart showing the relative importance of each major content area to be assessed. These weightings may be useful to you as you are preparing the review of this MBA foundation exam. You may want to review the content areas in the outline and the corresponding sections in the required textbook from the course. It is not required that you purchase a copy of the textbook. However, exam questions are based on the materials taught in the course and included in the textbook.

For each exam, five sample questions are provided to illustrate those typically found on the particular exam. The sample questions are not intended to be a practice test, but they may serve as models if you wish to create your own test questions for review purposes.

In the last pages of this guide, you will find rationales for the multiple-choice sample questions. The key (correct answer) is indicated in **bold**.

The rationales explain why the key is the correct answer and what is wrong with the other answer choices. In addition, each question is referenced to the content outline. Please note that if you chose one of the wrong answers, you should return to its section of the content outline for additional review.

On the day of your exam, do yourself some favors:

- Arrive at the test site rested and prepared to concentrate for an extended period.
- Be sure to allow sufficient time to travel, park, and locate the test center.
- Practice healthy eating and stress control in the days before your exam.
- Dress comfortably—the computer will not mind that you are wearing your favorite relaxation outfit.
- Be prepared for possible variations in temperature at the test center due to changes in the weather or energy conservation measures.
- Bring your IDs and ATT letter, but otherwise, do not weigh yourself down with belongings that will have to be kept in a locker during the test.

## Academic Honesty Nondisclosure Statement

All test takers must agree to abide by the terms of the Excelsior College Academic Honesty Policy before taking an examination. The agreement will be presented on screen before the start of your exam. Once you accept the terms of the agreement, you will be able to proceed with your exam. If you choose not to accept the terms of this agreement, your exam will be terminated. You will not be eligible for a refund. For more information, review the Student Policy Handbook at <a href="www.excelsior.edu/studentpolicyhandbook">www.excelsior.edu/studentpolicyhandbook</a>.

Student behavior will continue to be monitored post administration and electronic measures are used to monitor the security of test items and scan for illegal use of intellectual property. This monitoring includes surveillance of Internet chat rooms, Web sites, and other public forums.

## **Content Outline**

The major content areas on the MBA Finance examination and the percent of the examination devoted to each content area are listed below.

Content Area	Percent of the Examination
I. Fundamental Finance and Accounting Concepts	25%
II. Economics	5%
III. Risk and Risk Management	25%
IV. Quantitative Financial Analysis	35%
V. Legal and Social Environment	10%
Total:	100%

# I. Fundamental Finance and Accounting Concepts (25%)

- A. Financial Accounting
  - 1) Conceptual Foundations
  - 2) Income Statement and Statement of Retained Earnings
  - 3) Balance Sheet
  - 4) Statement of Cash Flows
  - 5) Ratio Analysis
- B. Financial Management
  - 1) Capital Structure
  - 2) Leverage and Debt
  - 3) Dividends and Dividend Policy
  - 4) Budgets and Pro Forma Financial Statements

### II. Economics (5%)

- A. Basic Economic Concepts
  - 1) Market Systems and Workings
  - 2) Relevant Costs
  - 3) Money and the Banking System
  - 4) Monetary Policy and Fiscal Policy
- B. International Economics
  - 1) Exchange Rates

### III. Risk and Risk Management (25%)

- A. Basic Concepts of Risk
  - 1) Risk Analysis in Projects
  - 2) Deviation From Expected Returns
- B. CAPM—Capital Asset Pricing Model
  - 1) Market Risk vs) Individual Risk
  - 2) Interest Rate Calculations
  - 3) Risk Free Rate of Return
  - 4) Beta
- C. WACC—Weighted Average Cost of Capital
  - 1) Computation of WACC
  - 2) Concept of Leverage and Risk
  - 3) Debt Impact on Cost of Capital

### IV. Quantitative Financial Analysis (35%)

- A. Probability and Statistics
  - 1) Measures of Central Tendency and Dispersion
  - 2) Normal Distributions
  - 3) Statistical Concepts in Finance (Beta, etc))
  - 4) Risk as Deviation From the Mean
- B. Financial Management
  - 1) Budgets and Budgeting
  - 2) Sensitivity Analysis
  - 3) Capital Project Planning
- C. Investment Management
  - 1) Stock Valuation
  - 2) Bond Valuation
  - 3) Rates of Return and Return Calculations

- D. Specific Tools and Models
  - 1) Net Present Value (NPV) Analysis
  - 2) Internal Rate of Return Calculation (IRR)
  - 3) Break-Even Analysis
  - 4) Pay Back Models
  - 5) Discounted Cash Flow (DCF) Analysis
  - 6) Capital Asset Pricing Model (CAPM)
  - 7) Security Market Line (SML)

### V. Legal and Social Environment (10%)

- A. Legal Environment
  - 1) Business Organizations
  - 2) Law of Agency
- B. Regulatory Environment
  - 1) Security Regulation
  - 2) Compliance
  - 3) Sarbanes Oxley
- C. Ethics and Social Responsibility
  - 1) Ethics
  - 2) Corporate Governance

### **Sample Questions**

The questions that follow illustrate those typically found on this exam. Answer rationales can be found on page 8 of this guide.

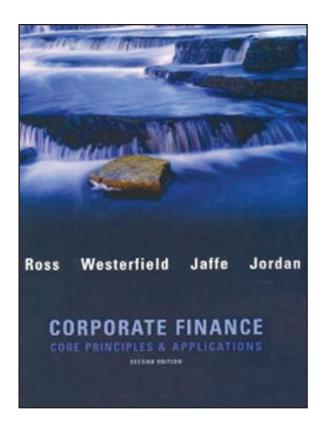
- 1. What type of costs is diesel fuel for a fleet of delivery trucks in a parcel delivery business?
  - A. fixed
  - B. incremental
  - C. total
  - D. variable
- 2. What is a cost that has already been paid, or the liability to pay has already been incurred?
  - A. sunk cost
  - B. opportunity cost
  - C. salvage value expense
  - D. net working capital expense
- 3. What is a symmetric, bell-shaped frequency distribution that is completely defined by its mean and standard deviation called?
  - A. a bi-modal distribution
  - B. a uniform distribution
  - C. a gamma distribution
  - D. a normal distribution

- 4. It will cost \$2,600 to acquire a small ice cream cart. Cart sales are expected to be \$1,400 a year for three years. After the three years, the cart is expected to be worthless as that is the expected remaining life of the cooling system. What is the payback period of the ice cream cart?
  - A. 0.54 years
  - B. 1.14 years
  - C. 1.86 years
  - D. 3.00 years
- 5. Which agency is charged with the primary responsibility for enforcing the federal securities laws and regulating the securities industry?
  - A. National Security Agency (NSA)
  - B. Department of Homeland Security (DHS)
  - C. Securities and Exchange Commission (SEC)
  - D. Transportation Security Administration (TSA)

### **Learning Resources for this Exam**

The textbook listed below is recommended by Excelsior College and is the textbook used for the graduate course in Finance for Managers (BUS 505). For information on ordering from the Excelsior College Bookstore, please see page 10 in this guide. You may also find resource materials in other college libraries or bookstores. Public libraries may also have the textbook or may be able to obtain it through an interlibrary loan program

### **Recommended Textbook**



Corporate Finance: Core Principles and Applications		
Author	Ross, Stephen A.	
Edition	2nd, 2009	
ISBN-10	0-07-725927-0	
ISBN-13	978-0-07-725927-3	
Publisher	McGraw-Hill Publishing Company	

### Order the resources you need today!

The Excelsior College Bookstore is available by phone, fax, email, Web site, and mail.

See page 10 for ordering information.

### **Rationales for Sample Questions**

- [IA4] Fundamental Finance and Accounting Concepts—Financial Accounting—Statement of Cash Flows
  - A. Fixed costs are business expenses that are not dependent on the level of goods or services produced by the business and are often referred as overhead costs.
  - B. Incremental costs are the change in the total costs that results when the quantity produced changes by an additional unit.
  - C. Total costs are the combination of all fixed and variable costs.
  - D. Variable costs are business expenses that change in proportion to the activity of the business. Since the amount of diesel fuel depends on the amount of business in a delivery business, it is a variable cost.\*
- 2. [IVB1] Quantitative Financial Analysis Financial Management Budgets and Budgeting
  - A. Sunk costs are retrospective costs that have already been incurred and cannot be recovered.\*
  - B. Opportunity cost is the cost related to the next-best choice available to someone who has picked among several mutually exclusive choices.
  - C. Salvage value expense is the tax liability a company will incur if it sells a piece equipment at a price higher than the equipment's actual book value.
  - D. Net working capital is defined as the difference between current assets and current liabilities.

- 3. [IVA2] Quantitative Financial Analysis—
  Probabilities and Statistics—Normal Distributions
  - A. A bimodal distribution has two distinct or overlapping peaks.
  - B. A continuous uniform distribution is represented as a horizontal line where each member of the family has equal probability.
  - C. A gamma distribution is a two-parameter family of continuous probability distribution and normally does not have a symmetrical bell shape.
  - D. A normal distribution is a continuous probability distribution that is often used to describe real-valued random variables that tend to cluster around a single mean value. It has a symmetrical bell shape and the broadness of the peak is defined by its standard deviation.\*
- 4. [IVD4] Quantitative Financial Analysis—Specific Tools and Models—Pay Back Models

Payback period is the period of time required for the return on an investment to "repay" the sum of the original investment. Therefore, the payback period is equal to the investment divided by the yearly return.

- A. Students mistakenly divided 1400 by 2600.  $(1400 \div 2600 = 0.54)$
- B. This is the difference between 3 years and 1.86 years. (3.00 1.86 = 1.14)
- C.  $$2600 \div $1400/year = 1.86 years *$
- D. Three years was the time given in the question stem where the value of the cart is expected to be zero.

<sup>\*</sup>correct answer

### [VBI] Legal and Social Environment—Regulatory Environment—Security Regulation

- A. The National Security Agency is an intelligence agency of the United States. It is responsible for the collection and analysis of foreign communications. In addition, it protects U.S. government communications and information systems.
- B. The U.S. Department of Homeland Security has the primary responsibilities of protecting the United States and its territories from terrorist attacks and responding to natural disasters.
- C. The U.S. Securities and Exchange Commission is a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.\*
- D. The Transportation Security Agency, a part of the Department of Homeland Security, is charged in developing policies to protect U.S. transportation, especially in airport security. It also oversees security for highways, railroads, buses, mass transit systems, pipelines, and ports.

### **Other Important Information and Resources**

### **Registration Information**

**Register online**—Go to <u>www.excelsior.edu/examregistration</u>. Follow the simple instructions to register using your Visa, MasterCard, American Express, or Discover Card.

Register by phone—Call toll free 888-72EXAMS (888-723-9267)

**Register by mail**—Mail registration is not available for the MBA exams.

### **Excelsior College Bookstore**

The Excelsior College Bookstore is staffed Monday through Thursday from 7 AM to 9 PM, Friday from 7 AM to 6 PM, Saturday from 8 AM to 5 PM, and Sunday from noon to 4 PM Eastern time.

To order by phone, call 800-325-3252

**To order by fax,** call 800-325-4147

To order materials online, anytime, visit the bookstore at www.excelsior.edu/bookstore.

#### **Pearson VUE**

Web site: www.pearsonvue.com/excelsior

**Call center:** 888-926-9488

### **For More Information**

For more information regarding Excelsior College Examinations, access the downloadable Excelsior College® Examinations Registration and Information: A User's Guide at <a href="https://www.excelsior.edu/exams">www.excelsior.edu/exams</a>.

### Frequently Asked Questions (FAQ)

#### I took some of these courses as an undergraduate student. Do I need to take these exams?

Answer:

No. In general, you do not have to take the graduate foundation courses if you have taken and passed upper-level, undergraduate-equivalent courses with a grade of "B" or better within the last ten years. Please contact your advisor (www.excelsior.edu/messagecenter) and see if the corresponding foundation course can be waived.

### How do I sign up for the exams?

Answer:

You can register for the exams either online or by phone. However, you must obtain an approval by your advisor prior to the registration.

#### What is the cost of the exam? Does the exam qualify for financial aid?

**Answer:** The cost of the exam is \$300. The exam does not qualify for financial aid.

### Do I get any course credits if I pass the exam?

Answer:

No. You will not receive any credits. If you pass the exam, however, you will not be required to take the corresponding graduate foundation course.

### I did not pass the exam. Can I take it over again?

Answer:

No. You only have one chance to pass the exam. However, you are allowed to take another foundation exam. In general, you are allowed only one attempt for each foundation exam.

#### Am I required to purchase the textbook for the exam?

Answer:

No. You are not required to purchase the textbook. However, it is a good idea to obtain a copy through a purchase or a library loan. This will allow you to go through the content and materials as a review for the exam.

#### What do I do if I am not able to take the exam at the scheduled time?

Answer:

You must reschedule your exam by **7:00 PM Central time** on the business day before the scheduled appointment time, or at least 24 hours before the scheduled time, whichever comes first.

#### Can I share the test questions with others?

Answer:

Absolutely not! This would violate the academic honesty policy of the College. Excelsior College actively monitors the Web and other public forums to make sure the integrity of the exam is not compromised. Any violation to this policy will result in the disqualification of your exam results and/or further disciplinary and legal actions.

### Are the exams available internationally?

Answer: Yes. You can take the exam at Pearson VUE authorized test centers worldwide. There is an additional \$10 charge.

### **Notes**

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