Principles of Finance
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Before You Choose This UExcel Exam

Uses for the Examination

• Excelsior College, the test developer, recommends granting three (3) semester hours of upper-level undergraduate credit to students who receive a letter grade of C or higher on this examination. The examination may be used to help fulfill the course requirement for the BS in General Business or as a free elective for all Excelsior College degree programs that allow for free electives.

• Other colleges and universities also recognize this exam as a basis for granting credit or advanced standing.

• Individual institutions set their own policies for the amount of credit awarded and the minimum acceptable score.

Exam-takers who have applied to Excelsior College should ask their academic advisor where this exam fits within their degree program.

Exam-takers not enrolled in an Excelsior College degree program should check with the institution from which they wish to receive credit to determine whether credit will be granted and/or to find out the minimum grade required for credit. Those who intend to enroll at Excelsior College should ask an admissions counselor where this exam fits within their intended degree program.

For more information on exam availability and actual testing information, see the Exam Registration and Information Guide.

Examination Length and Scoring

The exam consists of approximately 60 single-answer, multiple-choice questions; see the sample questions at the back of this guide. You will have two (2) hours to complete the exam. Your score will be reported as a letter grade. Questions are scored either correct (1) or incorrect (0). There is no partial credit. Each credit-bearing exam contains pretest questions, which are embedded throughout the exam. They are indistinguishable from the scored questions. It is to your advantage to do your best on all the questions. Pretest questions are being tried out for use in future versions of the exam.

The UExcel exams do not have a fixed grading scale such as A = 90–100%, B = 80–90%, and so forth, as you might have seen on some exams in college courses. Each UExcel test has a scale that is set by a faculty committee and is different for each exam. The process, called standard setting, is described in more detail in the Technical Handbook. Excelsior puts each exam through a standard setting because different test questions have different levels of difficulty. To explain further, getting 70% of the questions right on the exam when the questions are easy does not show the same level of proficiency as getting 70% of questions correct when the questions are hard. Every form of a test (a form contains the test questions) has its own specific grading scale tailored to the particular questions on each exam form.

Please also note that on each form, some of the questions count toward the score and some do not; the grading scale applies only to those questions that count toward the score. The area with percentage ratings on the second page of your score report is intended to help identify relative strengths and weaknesses and which content areas to emphasize, should you decide to
take the examination again. Your grade is based on both scored and pretest questions—pretest questions which are not scored. Therefore, the percentage ratings do not necessarily reflect the total percentage that counted toward your grade.

For the best view of the types of questions on this exam, see the sample questions in the back of this guide. Practice, practice, practice!

Score Reporting

For most of our examinations, based on performance, an examinee is awarded a letter grade of A, B, C, or F along with diagnostic information describing examinee performance in each of the major content areas in any given exam. A letter grade of D can be given, but credit is awarded for A, B, and C letter grades only. The letter grades reported to examinees indicate that their performance was equivalent to the performance of students who received the same letter grade in a comparable, on-campus course.

More specifically, the letter grade indicates the examinee’s proficiency relative to the learning outcomes specified in the exam content guide. Following are general descriptions of examinee performance at each level:

Letter Grade Description

A  Highly Competent: Examinee’s performance demonstrates an advanced level of knowledge and skill, relative to the learning outcomes.

B  Competent: Examinee’s performance demonstrates a good level of knowledge and skill, relative to the learning outcomes.

C  Marginally Competent: Examinee’s performance demonstrates a satisfactory level of knowledge and skill relative to the learning outcomes.

D  Not Competent (no credit recommended): Examinee’s performance demonstrates weak knowledge of the content and minimal skill relative to the learning outcomes.\(^1\)

F  Fail (no credit recommended): Examinee’s performance demonstrates no knowledge of the content and no skill in the subject relative to the learning outcomes.

Credit is transcripted by Excelsior College for examinees who achieve letter grades of C or higher.

We encourage colleges and universities to use the Excelsior College letter grades of A, B, and C as acceptable standards for awarding credit.

See page 28 for a sample UExcel Grade Report for Examinations, at the back of this content guide.

UExcel Exam Resources

Excelsior College Bookstore

The Excelsior College Bookstore offers recommended textbooks and other resources to help you prepare for UExcel exams.

The bookstore is available online at (login required): www.excelsior.edu/bookstore

Excelsior College Library

Enrolled Excelsior College students can access millions of authoritative resources online through the Excelsior College Library. Created through our partnership with the Sheridan Libraries of The Johns Hopkins University, the library provides access to journal articles, books, websites, databases, reference services, and many other resources. Special library pages relate to the nursing degree exams and other selected exams. To access it, visit www.excelsior.edu/library (login is required).

Our library provides:

- 24/7 availability
- The world’s most current authoritative resources
- Help and support from staff librarians

Online Tutoring

Excelsior College offers online tutoring through SMARTTHINKING™ to connect with tutors who have been trained in a variety of academic subjects. To access SMARTTHINKING, go to www.excelsior.edu/smarthinking. Once there, you may download a copy of the SMARTTHINKING Student Handbook as a PDF.

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\(^1\) In general, two hour exams do not award a D letter grade.
Preparing for UExcel Exams

Take Charge of Your Own Learning
At Excelsior College, independent, self-directed study supported by resources we help you find is not a new concept. We have always stressed to exam takers that they are acting as their own teacher, and that they should spend as much time studying for an exam as they would spend in a classroom and on homework for a corresponding college course in the same subject area.

Begin by studying the content outline contained in this content guide, at its most detailed level. You will see exactly which topics are covered, and where chapters on those topics can be found in the Recommended Resources. You will see exactly where you might need to augment your knowledge or change your approach.

The content outline, along with the Learning Outcomes for this exam and recommended textbooks, will serve as your primary resources.

How Long Will It Take Me to Study?
Study for a UExcel exam is comparable to an equivalent college-level course. As an independent learner, you should study and review as much as you would for the same subject in a campus-based college course. If you already have a background in the subject, you may be able to pass the exam successfully with fewer hours of study. It depends upon the learner as well as the subject, the number of credits (for example, a 6- or 8-credit exam will require more hours of study than a 3-credit exam), and the length of the exam. We strongly encourage you to create a long-term action, or study plan, so that you have a systematic approach to prepare for the exam. We’ve included guidelines for creating such a plan.

How Can I Create an Effective Long-Term Study Plan?

1. Determine the time you will require to complete your preparation for this exam. As a rule, you should plan to budget approximately 150 hours of study time for this exam. About 135 of those hours should be spent on studying the content alone. Aside from the content review, you should then factor in time to search for and use other resources, and to complete any projects and assignments in the study materials that will clarify your understanding of the topics in the content outline (that part in the content guide where the specific areas of study are spelled out). Spend more time on concepts and areas in which you feel you are weak. Toted, this is approximately the amount of time you should expect to devote to a three-credit, campus-based course. The actual amount of time you require depends on many factors, and will be approximate. If your background is weak, you may need to set aside substantially more than 135–150 hours. If your background is strong, you may budget less time.

   Take a few minutes to review the content outline to assess your familiarity with the content. Then, in the space below, write the number of hours you will allocate to complete preparing for the exam.

   Hours Required = [ ]

2. Determine the time you will have available for study.
In self-study, you need structure, as well as motivation and persistence, and a methodical approach to preparation. There is no set class to keep you on task. You have to do that yourself. Construct a time-use chart to record your daily activities over a one-week period. The most accurate way to do this is to complete the chart on a daily basis to record the actual amount of time you spend eating, sleeping, commuting, working, watching television, caring for others and yourself, reading, and everything else in an adult’s life. However, if your schedule is regular, you might prefer to complete the chart in one sitting and, perhaps, by consulting your appointment book or planner.

   After you have recorded your activities, you will be ready to schedule study periods around these activities or, perhaps, instead of some of them. In the space below, write the number of hours you will be able to set aside for study each week.

   Hours Required = [ ]

3. Divide the first number by the second number.
This will give you the number of weeks you will need to set aside for independent study. For example, if you think you will require 170 hours of study and you have 10 hours available to study
each week, divide 170 hours by 10 hours and you will get 17. This means that you will need about 17 weeks to complete this course of study. However, you will also need to allow about a week for review and self-testing. Moreover, to be on the safe side, you should also add two weeks to allow for unforeseen obstacles and times when you know you will not be able to study (e.g., during family illnesses or holidays). So, in this case, you should allot a total of 18 to 19 weeks to complete your study.

4. Schedule your examination to coincide with the end of your study period.

For example, if you plan to allow 18 weeks for study, identify a suitable examination date and begin study at least 18 weeks before that date. (The date you begin study assumes that you will have received all of your study materials, particularly textbooks, by that time.)

5. Format a long-term study plan.

You will need to use a calendar, planner, or some other tool to format and track your long-term study plan. Choose a method that is convenient and one that keeps you aware of your study habits on a daily basis. Identify the days and exact hours of each day that you will reserve for study throughout your whole independent study period. Check to see that the total number of hours you designate for study on your long-term study plan adds up to the number of hours you have determined you will need to complete this course of study (Step 1).

6. Record in your long-term study plan the content you plan to cover during each study period.

Enter the session numbers, review, and examination preparation activities you will complete during each study period. While it is suggested that approximately 160–170 hours of study is required for this exam, each and every student may require different timelines based on their comfort with, and comprehension of, the material.

You now have a tentative personal long-term study plan. Keep in mind that you will have to adjust your study plan, perhaps several times, as you study. It is only by actually beginning to work systematically through the material, using the content outline, that you will be able to determine accurately how long you should allow for each unit.

What Learning Strategy Should I Use?

The following guidelines are intended to help you acquire the grounding in the knowledge and skills required for successful completion of this examination.

1. Approach learning with a positive attitude.

Most students are capable of learning subject content if they devote enough time and effort to the task. This devotion will give you a positive edge and a feeling of control.

2. Diligently complete the exact work you specified in your study plan.

Your study plan is being designed for the specific purpose of helping you achieve the learning outcomes for this exam.

3. Be an active learner.

You should actively engage in the learning process. Read critically, take notes, and continuously monitor your comprehension. Keep a written record of your progress, highlight content you find difficult to grasp, and seek assistance from someone in your learning community who can help you if you have difficulty understanding a concept.

4. Be patient: you may not understand everything immediately.

When encountering difficulty with new material, be patient with yourself and don’t give up. Understanding will come with time and further study. Sometimes you may need to take a break and come back to difficult material. This is especially true for any primary source material (original letters, documents, and so forth) that you may be asked to read. The content outline will guide you through the material and help you focus on key points. You will find that many concepts introduced in earlier sessions will be explained in more detail in later sessions.

5. Apply your learning to your daily life.

Use insights you gain from your study to better understand the world in which you live. Apply the learning whenever you can. Look for instances that support or contradict your reading on the subject.
6. Accommodate your preferred way of learning.

How do you learn best? Common ways to learn are reading, taking notes and making diagrams, and by listening to someone (on video or live). Others learn by doing. Do any of these descriptions apply to you? Or does your learning style vary with the learning situation? Decide what works for you and try to create a learning environment to accommodate your preferences.

Study Tips

Become an active user of the resource materials. Aim for understanding rather than memorization. The more active you are when you study, the more likely you will be to retain, understand, and apply the information.

The following techniques are generally considered to be active learning:

• **preview or survey** each chapter
• **highlight or underline** text you believe is important
• **write questions or comments** in the margins
• **practice re-stating content** in your own words
• **relate what you are reading** to the chapter title, section headings, and other organizing elements of the textbook
• **find ways to engage** your eyes, your ears, and your muscles, as well as your brain, in your studies
• **study with a partner or a small group** (if you are an enrolled student, search for partners on MyExcelsior Community)
• **prepare your review notes** as flashcards or create recordings that you can use while commuting or exercising

When you feel confident that you understand a content area, review what you have learned. Take a second look at the material to evaluate your understanding. If you have a study partner, the two of you can review by explaining the content to each other or writing test questions for each other to answer. Review questions from textbook chapters may be helpful for partner or individual study, as well.

Study smart for your UExcel exam, and succeed with our Student Success Guide.

Using UExcel Practice Exams

The Principles of Finance exam has a corresponding practice exam, which is delivered in the Canvas learning platform.

The official UExcel practice exams are highly recommended as part of your study plan. They can be taken using any computer with a supported Web browser such as Google Chrome.

A practice exam package containing two forms is available for this exam, for $75. To register for the practice exam, visit [www.excelsior.edu](http://www.excelsior.edu) and log into your MyExcelsior account. Please note: You must be registered for the corresponding credit-bearing exam first, before you can register for the practice exam.

Practice exams are not graded. Rather, they are intended to help you make sure you understand the subject and give you a sense of what the questions will be like on the exam for credit. Ideally, you would check any questions you got wrong, look at the explanations, and go back to the textbook to reinforce your understanding. After taking both forms of the practice exam, you should feel confident in your answers and confident that you know the material listed in the content outline.

Practice exams are one of the most popular study resources. Practice exams are typically shorter than the credit-bearing exam. Since the questions are drawn from the same pool of questions that appear on the credit-bearing exam, what you will see when you sit for the graded exam will be roughly the same. Used as intended, these practice exams will enable you to:

• Review the types of questions you may encounter on the actual exam.
• Practice testing on a computer in a timed environment.
• Practice whenever and wherever it is convenient for you.
• Take two different forms of a practice exam within a 180-day period. (We highly recommend that you take the first form of the practice exam as a pretest, early in the study period. Use the results to identify areas to further study and carry out a plan. Then take the second form as a post-test and see how much you have improved.)

Although there is no guarantee, our research suggests that exam takers who do well on the practice exams are more likely to pass the actual exam than those
who do not, or who do not take advantage of the opportunity. Note that since the practice exams are not graded (calibrated) the same way as the scores on the credit-bearing exam, it will be hard for you to use the practice exams as a way to predict your score on the credit-bearing exam. The main purpose of the practice exams is for you to check your knowledge and to become comfortable with the types of questions you are likely to see in the actual, credit-bearing exam.

About Test Preparation Services
Preparation for UExcel® exams and Excelsior College® Examinations, though based on independent study, is supported by Excelsior College with a comprehensive set of exam learning resources and services designed to help you succeed. These learning resources are prepared by Excelsior College so you can be assured that they are current and cover the content you are expected to master for the exams. These resources, and your desire to learn, are usually all that you will need to succeed.

There are test-preparation companies that will offer to help you study for our examinations. Some may imply a relationship with Excelsior College and/or make claims that their products and services are all that you need to prepare for our examinations.

Excelsior College is not affiliated with any test preparation firm and does not endorse the products or services of these companies. No test preparation vendor is authorized to provide admissions counseling or academic advising services, or to collect any payments, on behalf of Excelsior College. Excelsior College does not send authorized representatives to a student’s home nor does it review the materials provided by test preparation companies for content or compatibility with Excelsior College examinations.

To help you become a well-informed consumer, we suggest that before you make any purchase decision regarding study materials provided by organizations other than Excelsior College, you consider the points outlined on our website at www.excelsior.edu/testprep.

Exam Preparation Strategies
Each learner is different. However, all learners should read the content outline in the exam’s Content Guide and ensure that they have mastered the concepts. For someone with no prior knowledge of the subject, a rule of thumb is 135 hours of study for a three-credit exam—this number is just to give you an idea of the level of effort you will need, more or less.

Content Guides
This content guide is the most important resource. It lists the outcomes, a detailed content outline of what is covered, and textbooks and other study resources. It also has sample questions and suggestions for how to study. Content guides are updated periodically to correspond with changes in particular examinations and in textbook editions. Test-takers can download any of the latest free UExcel content guides by visiting the individual exam page or from the list at www.excelsior.edu/contentguides.

Prior Knowledge
A familiarity with precalculus topics including algebra, trigonometry, and functions is assumed.

Using the Content Outline
Each content area in the content outline includes the most important sections of the recommended resources for that area. These annotations are not intended to be comprehensive. You may need to refer to other chapters in the recommended textbooks.

Chapter numbers and titles may differ among textbook editions.

This content outline contains examples of the types of information you should study. Although these examples are numerous, do not assume that everything on the exam will come from these examples. Conversely, do not expect that every detail you study will appear on the exam. Any exam is only a broad sample of all the questions that could be asked about the subject matter.

Using the Sample Questions and Rationales
Each content guide provides sample questions to illustrate those typically found on the exam. These questions are intended to give you an idea of the level of knowledge expected and the way questions are typically phrased. The sample questions do not sample the entire content of the exam and are not intended to serve as an entire practice test.
Recommended Resources for the UExcel Exam in Principles of Finance

The resources listed below are recommended by the examination development committee for use preparing for this exam. Resources listed under “Exam Verification Resources” were used to verify all the questions on the exam. Please refer to the Content Outline to see which parts of the exam are covered by which of the Exam Verification Resources. Resources listed under “Supplemental Resources” provide additional material that may deepen or broaden your understanding of the subject, or that may provide an additional perspective. Textbook resources, both Exam Verification and Supplemental, are available for purchase at the Excelsior College Bookstore.

You should allow ample time to obtain resources and to study sufficiently before taking the exam, so plan appropriately and with care.

A word about textbook editions: Textbook editions listed in the UExcel content guides may not be the same as those listed in the bookstore. Textbook editions may not exactly match up in terms of table of contents and organization, depending upon the edition. However, our team of exam developers checks exam content against every new textbook edition to verify that all subject areas tested in the exam are still adequately available in the study materials. If needed, exam developers will list supplemental resources to ensure that all topics in the exam are still sufficiently covered. Public libraries may have the textbooks you need, or may be able to obtain them for you through interlibrary loan to reduce textbook costs. You may also consider financial aid, if you qualify, to further help defray the steep cost of textbooks. A section on OER has been included in this guide to help you locate additional resources to augment your study.

Exam Verification Resources

Supplemental Resources
There are no Supplemental Resources for the Principles of Finance exam. For additional information, please refer to available open educational resources (OER).

Reducing Textbook Costs
Many students know it is less expensive to buy a used textbook, and buying a previous edition is also an option. The Excelsior College bookstore includes a buyback feature and a used book marketplace, as well as the ability to rent digital versions of textbooks for as long as students need them. Students are encouraged to explore these and the many other opportunities available online to help defray textbook costs.

A Word About Open Educational Resources
Open educational resources (OER) are educational materials available for study at no cost on the Web. Some OER are available for anyone to access any time. Others, such as Massive Open Online Courses (MOOCs), require sign-up and are only available during certain windows. Please note that some MOOC providers offer certificates of completion or other products or services for a fee. No MOOC or other OER is a complete substitute for the content guide and officially Recommended Resources listed here in this content guide. However, by definition, MOOCs are essentially free of charge and include access to a main body of learning materials that may help you in your learning.

Being an independent learner preparing for credit by exam, you may not need any of the fee-based options that are offered elsewhere online. But if you are looking for a coherent academic course for self-study, lectures on specific topics, or audio or visual materials that fit your learning style better than print materials alone, a MOOC or other type of OER may be your answer. Keep in mind that none of these OER were designed by Excelsior, nor are they guaranteed to match the exam content outlines completely. They are simply another tool available in your study kit.

We highly encourage using the Recommended Resources. In the content outline, you will see that the topics in the exam are referenced to specific portions of recommended textbooks. Using OER alone will not ensure you’ve completely covered the
content in the exam, or it may not cover some topics in sufficient-enough depth without the use of the formal, recommended textbooks.

If the OER course you choose does not include a textbook for reference and you do not have significant practical theory-based experience in the field of study, use a college textbook to ensure adequate preparation for the exam, and use the exam’s content outline as a guide.

Combined with comparable college textbooks, OER provides you with a variety of choices in knowledge sources and learning experiences, to enhance your understanding of the subject matter.

**Choosing Open Educational Resources**

Most sites for university-based OER can be searched through www.ocwconsortium.org and/or www.oercommons.org.

Sites that specialize in Web courses designed by college professors under contract with the website sponsor, rather than in Web versions of existing college courses, include:

- www.education-portal.com
- www.opencourselibrary.org (abbreviated as OCL)

We have included specific courses that cover material for one or more UExcel® exams from the sites in the listings above. It’s worth checking these sites frequently to see if new courses have been added that may be more appropriate or may cover an exam topic not currently listed.

In addition, sites like Khan Academy (www.khanacademy.com) and iTunes U feature relatively brief lessons on very specific topics rather than full courses. Full courses are also available on iTunes U (http://www.apple.com/education/ipad/itunes-u/). We have chosen a few courses and collections for this listing.

**Other Online Resources**

This section of the OER Guide is provided to allow learners to independently search for resources.

**Open Online Textbooks**

- BookBoon

- Flatworld Knowledge
  - http://catalog.flatworldknowledge.com/#our-catalog

**College Readiness**

- Khan Academy
  - http://www.khanacademy.org/

- Hippocampus
  - http://www.hippocampus.org/

- Open Course Library

**Study Aids**

- Education Portal
  - http://education-portal.com/

- Khan Academy
  - http://www.khanacademy.org/

- Annenberg Learner
  - http://www.learner.org/

- OpenCourseWare

- OER Commons
  - http://www.oercommons.org/

- Open Course Library
  - http://www.opencourselibrary.org/

To achieve academic success, rate yourself at Excelsior College’s Self-Regulated Learning Lab. Visit the Diagnostic Assessment & Achievement of College Skills site at https://srl.daacs.net/

It’s free!
General Description of the Examination

The UExcel Principles of Finance examination is based on material typically taught in a one-semester, three-credit, lower-level course in principles of finance. The content of the examination corresponds to course offerings such as Principles of Finance, Finance I, or Corporate Finance.

The examination measures knowledge and understanding of the following major themes: identifying and describing the fundamental financial concepts, including those basic accounting concepts necessary for the understanding of finance; applying financial theory and quantitative tools to analyze financial problems; explaining how financial decisions should respond to different situations, including changes in the global financial environment; describing Sarbanes Oxley and the impact to the financial markets; describing and evaluating ethical dilemmas that companies often face in pursuing financing and profit; describing and evaluating how the contemporary financial environment affects how investors and financial professionals think about risk.

Those beginning to study for this exam should be familiar with topics generally covered in courses in macroeconomics, microeconomics, financial accounting, and statistics.

Learning Outcomes

After you have successfully worked your way through the recommended study materials, you should be able to demonstrate the following 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. (Aligns to GECC 2.2)
3. Describe how financial decisions should respond to different situations, including changes in the global financial environment. (Aligns to GECC 2.2)
4. Describe Sarbanes Oxley and its impact on the financial markets. (Aligns to GECC 5.1)
5. Describe and evaluate ethical dilemmas that companies often face in pursuing financing and profit. (Aligns to GECC 6.1)
6. Describe and evaluate how the contemporary financial environment affects how investors and financial professionals think about risk. (Aligns to GECC 5.1)
7. Describe the concepts of financial economics and the contexts within which it is practiced. (Aligns to GECC 5.1)
8. Describe the elements of financial statement analysis and how they are applied, and apply basic ratio tools used to interpret and evaluate financial statements. (Aligns to GECC 2.1)

9. Identify and describe the process and procedures for capital budgeting analysis and be able to construct and solve basic capital budgeting problems. (Aligns to GECC 2.1)

**General Education Career Competencies Addressed in this Exam**

GECC-2: Mathematical and Scientific Problem Solving: Apply scientific knowledge and reasoning to make evidence-based decisions. Apply mathematical concepts and reasoning to solve problems that involve quantitative information.

GECC-5: Global Understanding: Explain how social, political, economic, or cultural forces shape relations between individuals and groups around the world.

GECC-6: Ethical Reasoning: Explain different ethical positions in relations to a problem or issue.

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**Content Outline**

The content outline describes the various areas of the test, similar to the way a syllabus outlines a course. To fully prepare requires self-direction and discipline. Study involves careful reading, reflection, and systematic review.

The major content areas on the Principles of Finance examination, the percent of the examination, and the hours to devote to each content area are listed below.

<table>
<thead>
<tr>
<th>Content Area</th>
<th>Percent of the Examination</th>
<th>Hours of Study*</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Fundamental Finance and Accounting Concepts</td>
<td>25%</td>
<td>34</td>
</tr>
<tr>
<td>II. Economics</td>
<td>5%</td>
<td>7</td>
</tr>
<tr>
<td>III. Risk and Risk Management</td>
<td>25%</td>
<td>34</td>
</tr>
<tr>
<td>IV. Quantitative Financial Analysis</td>
<td>35%</td>
<td>47</td>
</tr>
<tr>
<td>V. Legal and Social Environment</td>
<td>10%</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Approximate: For those test-takers who know the topic well, less time may be needed to learn the subject matter. For those who are new to the subject matter, more time may be required for study.
NOTE: Occasionally, examples will be listed for a content topic to help clarify that topic. However, the content of the examination is not limited to the specific examples given.

I. Fundamental Finance and Accounting Concepts

25 PERCENT OF EXAM

Ch. 1, Introduction to Corporate Finance
Ch. 2, Financial Statements, Taxes, and Cash Flow
Ch. 3, Working with Financial Statements
Ch. 4, Long-Term Financial Planning and Growth
Ch. 10, Making Capital Investment Decisions
Ch. 16, Financial Leverage and Capital Structure Policy
Ch. 18, Short-Term Finance and Planning

A. Nature of corporate finance
   1. Role of the financial manager
   2. Financial management decisions (capital budgeting, capital structure, and working capital)

B. Financial statements, taxes, and cash flow
   1. Balance sheet concepts
      a. Assets, liabilities, and owner’s equity
      b. Net working capital
      c. Liquidity
      e. Debt vs. equity
      f. Market value vs. book value
   2. Income statement concepts
      a. GAAP
      b. Noncash items
      c. Fixed and variable costs
   3. Tax rates and tax calculations
      a. Corporate tax brackets
      b. Average vs. marginal tax rates
   4. Cash flow

C. Analyzing financial statements
   1. Relationship between cash flow and financial statements
   2. Standardized financial statements
      a. Common-size statements (balance sheets, income statements, statements of cash flows)
      b. Common-base year financial statements and analysis
   3. Ratio analysis
      a. Short-term solvency or liquidity measures (current ratio, quick or acid-test ratio, cash ratio NWC to total assets ratio, interval measure)
      b. Long-term solvency or leverage measures (total debt ratio, times interest earned ratio, cash coverage ratio)
      c. Asset management or turnover measures (inventory turnover and days sales in inventory, receivables turnover and days’ sales in receivables, profit margin, return on assets, return on equity)
      d. Market measures (price-earnings ratio, price-sales ratio, market-to-book ratio)
      e. The DuPont identity
      f. Using financial statement information
         1) Internal and external uses
         2) Benchmark analyses (time trend, peer group)
         3) Problems with financial statement analysis

D. Long-term financial planning models
   1. Limitations of growth as a financial management goal
   2. Dimensions of financial planning
      a. Planning horizon
b. Aggregation

c. Worst, best, and normal case assumptions

3. Goals of financial planning (examining interactions, exploring options, avoiding surprises, ensuring feasibility and internal consistency)

4. Common elements of financial planning models
   a. Sales forecast
   b. Pro forma statements
   c. Asset requirements
   d. Financial requirements
   e. The plug variable
   f. Economic assumptions

5. The percentage of sales approach
   a. Income statements and balance sheets
   b. Working with scenarios

6. External financing (EFN), financial policy, and growth
   a. Internal and sustainable growth rates
   b. Determinants of growth (profit margin, dividend policy, financial policy, total asset turnover)

E. Estimating cash flows in capital budgeting
   1. Project cash flows (incremental cash flows and the stand-alone principle)
   2. Projecting cash flows
      a. Pro forma financial statements
      b. Developing project cash flows
         1) Net working capital
         2) Depreciation
            a) Modified ACRS depreciation (MACRS)
            b) Book value vs. market value
      c. Other ways to define operating cash flow
         1) Bottom-up

   2) Top-down

3) Tax shield

d. Applying value criteria to projected total cash flow

e. Discounted cash flow analysis
   1) Cost-cutting proposals
   2) Competitive bidding
   3) Evaluating equipment options

F. Capital structure decisions
   1. Optimal capital structure
      a. Static theory of capital structure
      b. Minimizing the cost of capital
      c. Managerial recommendations to address taxes and financial distress as capital structure factors
      d. The extended pie model and the pecking-order theory (claims and implications)

   2. Common elements of observed capital structures

   3. The bankruptcy process
      a. Liquidation and reorganization
      b. Role of the financial manager in the bankruptcy process
      c. Avoiding bankruptcy

G. Short-term operating activities
   1. Tracking current assets, current liabilities, and net working capital
      a. Operating cycle and cash cycle (definitions, managerial responsibilities)
         1) Calculating the operating and cash cycles
         2) Interpreting the cash cycle
      b. Aspects of short-term financial policy
         1) Level of investment in current assets
         2) Financing of current assets
            a) The ideal economy
b) Financing current assets under realistic conditions

3) Considerations in choosing a financing policy
   a) Cash reserves
   b) Maturity hedging
   c) Relative interest rates

c. Elements of the cash budget
   1) Sales and cash collections
   2) Cash outflows
   3) Net cash inflow or cash balance

d. Short-term borrowing
   1) Unsecured loans and lines of credit
      a) Compensating balances
      b) Letters of credit
   2) Secured loans
      a) Accounts receivable financing
      b) Inventory loans

II. Economics

5 PERCENT OF EXAM

Ch. 7, Interest Rates and Bond Valuation
Ch. 10, Making Capital Investment Decisions
Ch. 12, Some Lessons from Capital Market History
Ch. 21, International Corporate Finance

A. Interest rates and bond valuation
   1. Types of bonds
      a. Government bonds
      b. Zero coupon bonds
      c. Floating-rate bonds
      d. Other
   2. Bond markets
      a. How bonds are bought and sold
      b. Bond price reporting
   3. Determinants of bond yields

B. Estimating cash flows in capital budgeting
   1. Incremental cash flows
      a. Sunk costs
      b. Opportunity costs
      c. Side effects
      d. Net working capital
      e. Financing costs
      f. Other issues

C. Risk and return
   1. Capital market efficiency
      a. Price behavior in an efficient market
      b. The efficient market hypothesis
      c. Common misperceptions about the EMH
      d. Forms of market efficiency

D. International finance
   1. Foreign exchange markets and exchange rates
      a. Exchange rates
         1) Exchange rate quotations
         2) Cross-rates and triangle arbitrage
         3) Types of transactions
      b. Relative purchasing power parity
      1) The basic idea
      2) The result
      3) Currency appreciation and depreciation
   3. Interest rate parity, unbiased forward rates, and the international Fisher effect
a. Covered interest arbitrage
b. Interest rate parity
c. Forward rates and future spot rates
d. Uncovered interest parity
e. The international Fisher effect

4. International capital budgeting
a. Method 1: The home currency approach
b. Method 2: The foreign currency approach
c. Unremitted cash flows

5. Exchange rate risk
a. Short-run exposure
b. Long-run exposure
c. Translation exposure
d. Managing exchange rate risk

6. Political risk

III. Risk and Risk Management

A. Introduction to valuation
1. Future value and compounding
   a. Investing for a single period
   b. Investing for more than one period
   c. Compound growth
2. Present value and discounting
   a. The single-period case
   b. Present values for multiple periods
3. Present and future values

B. Future and present values of multiple cash flows
1. Future value with multiple cash flows
2. Present value with multiple cash flows
   a. Annuities and perpetuities
      1) Present value for annuity cash flows
         a) Annuity tables
         b) Finding the payment
         c) Finding the rate
      2) Future value for annuities
      3) Perpetuities
      4) Growth annuities and perpetuities
   b. Comparing rates
      1) Effective annual rates and compounding
      2) Calculating and comparing effective annual rates
      3) EARS and APRS
      4) Compounding
   c. Loan types and amortization
      1) Pure discount loans
      2) Interest-only loans
      3) Amortized loans

C. Evaluating risk in capital budget
1. Evaluating NPV estimates
   a. The basic problem
   b. Projected vs. actual cash flows
   c. Forecasting risk
   d. Sources of value

D. Risk and return
1. Average returns
   a. Calculating average returns
   b. Risk premiums
2. More about average returns
a. Arithmetic vs. geometric averages
b. Calculating geometric average returns
c. Arithmetic average return or geometric average return

E. Return, risk, and the security market line

1. Expected returns and variance
   a. Expected returns
   b. Calculating the variance
2. Risk: systematic and unsystematic
   a. Systematic and unsystematic risk
   b. Systematic and unsystematic components of return
3. Diversification and portfolio risk
   a. The effect of diversification
   b. The principle of diversification
   c. Diversification and unsystematic risk
   d. Diversification and systematic risk
4. Systematic risk and beta
   a. The systematic risk principle
   b. Measuring systematic risk
   c. Portfolio betas
5. The security market line
   a. Beta and risk premium
      1) The reward-to-risk ratio
   b. The security market line
      1) Market risk premium
      2) The capital asset pricing model (CAPM)
6. The security market line and the costs of capital

F. Cost of capital

1. The cost of capital
   a. Required return vs. cost of capital
   b. Financial policy and cost of capital
2. The cost of equity
   a. The dividend growth model
      1) Implementing the approach
2) Estimating g
3) Advantages and disadvantages of the approach
b. The SML approach
   1) Implementing the approach
   2) Advantages and disadvantages of the approach
3. The costs of debt and preferred stock
   a. The cost of debt
   b. The cost of preferred stock
4. The weighted average costs of capital
   a. The capital structure weights
   b. Taxes and the weighted average cost of capital
   c. Calculating WACC
d. Solving the warehouse problem and similar capital budgeting problems
e. Performance evaluation: another use of WACC
5. Divisional and project costs of capital
   a. The SML and the WACC
   b. Divisional cost of capital
   c. The pure play approach
d. The subjective approach
6. Flotation costs and the weighted average cost of capital
   a. The basic approach
   b. Flotation costs and NPV
c. Internal equity and flotation costs

G. Capital structure and the effects of leverage

1. The capital structure
   a. Capital structure and the cost of capital
2. The effect of financial leverage
   a. The basics of financial leverage
      1) EPS vs. EBIT
   b. Corporate borrowing and homemade leverage
3. Capital structure and the cost of equity capital
   a. M&M proposition I: the pie model
   b. The cost of equity and financial leverage: M&M proposition II
   c. Business and financial risk
4. M&M proposition I and II with corporate taxes
   a. The interest tax shield
   b. Taxes and M&M proposition I
   c. Taxes, the WACC, and M&M proposition II
5. Bankruptcy costs
   a. Direct bankruptcy costs
   b. Indirect bankruptcy costs

IV. Quantitative Analysis

35 PERCENT OF EXAM

Ch. 7, Interest Rates and Bond Valuation
Ch. 8, Stock Valuation
Ch. 9, Net Present Value and Other Investment Criteria
Ch. 11, Project Analysis and Evaluation
Ch. 12, Some Lessons from Capital Market History
Ch. 13, Return, Risk, and the Security Market Line
Ch. 17, Dividends and Payout Policy
Ch. 19, Cash and Liquidity Management
Ch. 20, Credit and Inventory Management

A. Interest rates and bond valuation
   1. Bonds and bond valuation
      a. Bond features and prices
      b. Bond values and yields
      c. Interest rate risk
      d. Finding the yield to maturity
   2. Bond features
      a. Debt or equity
      b. Long-term debt
      c. The indenture
      1) Terms of a bond
   2) Security
   3) Seniority
   4) Repayment
   5) The call provision
   6) Protective covenants

B. Stock valuation
   1. Common stock valuation
      a. Cash flows
      1) Zero growth
      2) Constant growth
      3) Nonconstant growth
      4) Two-stage growth
   b. Components of the required return
   c. Stock valuation using multiples
   2. Features of common and preferred stocks
      a. Common stock features
      1) Shareholder rights
      2) Proxy voting
      3) Classes of stock
      4) Other rights
      5) Dividends
      b. Preferred stock features
      1) Stated value
      2) Cumulative and noncumulative dividends
   3. The stock markets
      a. Dealers and brokers
      b. Organization of the NYSE
      c. NASDAQ operations
      d. Stock market reporting

C. Capital budgeting decision criteria
   1. Net present value
      a. The payback rule
      1) Defining the rule
      2) Analyzing the rule
      3) Positive traits of the rule
b. The discounted payback
c. The average accounting return
d. The internal rate of return (IRR)
  1) Problems with the IRR
     a) Nonconventional cash flows
     b) Mutually exclusive investments
  2) Positive traits of the IRR
  3) The modified internal rate of return (MIRR)
     a) The discounting approach
     b) The reinvestment approach
     c) The combination approach
  4) The profitability index
  5) The practice of capital budgeting

D. Evaluating risk in capital budgeting
  1. Scenario analyses
     a. Scenario analyses
     b. Sensitivity analyses
     c. Simulation analyses
  2. Break-even analysis
     a. Fixed and variable costs
        1) Variable costs
        2) Fixed costs
        3) Total costs
     b. Accounting break-even
     c. Uses for the accounting break-even
  3. Operating cash flow, sales volume, and break-even
     a. Accounting break-even and cash flow
        1) The base case
        2) Calculating the break-even level
        3) Payback and break-even
     b. Sales volume and operating cash flow
     c. Cash flow, accounting, and financial break-even points
        1) Cash break-even
        2) Financial break-even
  4. Operating leverage
     a. Basic idea
     b. Implications of operating leverage
     c. Measuring operating leverage
     d. Operating leverage and break-even
  5. Capital rationing
     a. Soft rationing
     b. Hard rationing

E. Risk and return
  1. Capital market history
     a. Returns
        1) Dollar returns
        2) Percentage returns
     b. Historical record
     c. Variability of returns
        1) Frequency distributions and variability
        2) Historical variance and standard deviation
        3) Normal distribution
        4) Using capital market history
        5) Stock market risk premium
  2. Expected and unexpected returns
     a. News and announcements
  3. Portfolios
     a. Portfolio weights
     b. Portfolio expected returns
     c. Portfolio variance

F. Return, risk, and the security market line
  1. Portfolios
  2. Expected and unexpected returns
     a. News and announcements

G. Dividends and payout policy
  1. Cash dividends and dividend payment
     a. Cash dividends
b. Standard method of cash dividend payment
c. Dividend payment: a chronology
d. Ex-dividend date

2. Dividend policy
   a. Homemade dividends

3. Real-world factors favoring low dividend payout
   a. Taxes
   b. Flotation costs
   c. Dividend restrictions

4. Real-world factors favoring high dividend payout
   a. Desire for current income
   b. Tax and other benefits
      1) Corporate investors
      2) Tax-exempt investors

5. A resolution of real-world factors
   a. Information content of dividends
   b. The clientele effect

6. Stock repurchases: an alternative to cash dividends
   a. Cash dividends vs. repurchase
   b. Real-world considerations in repurchase
   c. Share repurchase and EPS

7. Dividend and payout policies
   a. Dividends and dividend payers
   b. Corporations smooth dividends

8. Stock dividends and stock splits
   a. Details about stock dividends and stock splits
   b. Value of stock dividends and stock splits
   c. Reverse splits

H. Cash and liquidity management

1. Reasons for holding cash
   a. The speculative and precautionary motives
   b. The transaction motive
   c. Compensating balances
   d. Costs of holding cash
   e. Cash management vs. liquidity management

2. Understanding float
   a. Disbursement float
   b. Collection float and net float
   c. Float management
      1) Measuring float
      2) Cost of the float
      3) Ethical and legal questions
   d. Electronic data interchange and check 21

3. Cash collection and concentration
   a. Components of collection time
   b. Cash collection
   c. Lockboxes
   d. Cash concentration
   e. Accelerating collections

4. Managing cash disbursements
   a. Increasing disbursement float
   b. Controlling disbursements
      1) Zero-balance accounts
      2) Controlled disbursement accounts

5. Investing idle cash
   a. Temporary cash surpluses
      1) Seasonal or cyclical activities
      2) Planned or possible expenditures
   b. Characteristics
      1) Maturity
      2) Default risk
      3) Marketability
      4) Taxes

6. Determining the target cash balance
   a. The BAT model
      1) The opportunity costs
2) The trading costs
3) The total cost
4) The solution
b. The Miller-Orr model
c. Implication of the BAT and Miller-Orr models
d. Other factors influencing the target cash balance

I. Credit and inventory management

1. Credit and receivables
   a. Components of credit policy
   b. The cash flows from granting credit
   c. The investment in receivables
2. Terms of the sale
   a. The basic form
   b. The credit period
      1) The invoice date
      2) Length of the credit period
   c. Cash discounts
      1) Cost of the credit
      2) Trade discounts
      3) The cash discount and the ACP
   d. Credit instruments
3. Analyzing credit policy
   a. Credit policy effects
   b. Evaluating a proposed credit policy
      1) NPV of switching policies
      2) A break-even application
4. Optimal credit policy
   a. The total credit cost curve
   b. Organizing the credit function
5. Credit analysis
   a. When should credit be granted?
      1) A one-time sale
      2) Repeat business
   b. Credit information
   c. Credit evaluation and scoring
6. Collection policy
   a. Monitoring receivables
   b. Collection effort
7. Inventory management
   a. The financial manager and inventory policy
   b. Inventory types
   c. Inventory costs
8. Inventory management techniques
   a. The ABC approach
   b. The economic order quantity (EOQ) model
      1) Inventory depletion
      2) Carrying costs
      3) Restocking costs
      4) Total costs
   c. Extensions to the EOQ model
      1) Safety checks
      2) Reorder points
   d. Managing derived-demand inventories
      1) Materials requirements planning
      2) Just-in-time inventory
9. Credit policy analysis
   a. Two alternative approaches
      1) The one-shot approach
      2) The accounts receivable approach
   b. Discounts and default risk
      1) NPV of the credit decision
      2) A break-even application
V. Legal and Social Environment

10 PERCENT OF EXAM

Ch. 1, Introduction to Corporate Finance
Ch. 15, Raising Capital

A. Introduction to finance
1. Types of business organization
   a. Sole proprietorship
   b. Partnership
   c. Corporation
2. The goal of financial management
   a. Financial management goals
   b. Sarbanes-Oxley
3. Agency problems and control of the corporation
   a. Agency relationships
      1) Management goals
      2) Managerial compensation
      3) Control of the firm
      4) Stakeholders
4. Financial markets and the corporation
   a. Cash flows
   b. Primary vs. secondary markets
      1) Primary
      2) Secondary
      3) Dealer vs. auction
      4) Trading corporate securities
      5) Listing
B. Raising capital
1. The financing life cycle of a firm: early-stage financing and venture capital
   a. Venture capital
2. Selling securities to the public
3. Alternative issue methods
4. Underwriters
   a. Choosing an underwriter
   b. Types of underwriting
   1) Firm commitment underwriting
   2) Best efforts underwriting
   3) Dutch auction underwriting
   c. The aftermarket
   d. The green shoe provision
   e. Lockup agreements
   f. The quiet period
5. IPOs and underpricing
6. New equity sales and the value of the firm
7. The costs of issuing securities
   a. The costs of selling stock to the public
8. Rights
   a. The mechanics of a rights offering
   b. Number of rights needed to purchase a share
   c. The value of a right
   d. Ex rights
   e. The underwriting arrangements
   f. Effects on shareholders
9. Dilution
   a. Dilution of proportionate ownership
   b. Dilution of value: book vs. market values
10. Issuing long-term debt
11. Shelf registration
Sample Questions

The sample questions give you an idea of the level of knowledge expected in the exam and how questions are typically phrased. They are not representative of the entire content of the exam and are not intended to serve as a practice test.

Rationales for the questions can be found on pages 23–25 of this guide. In that section, the correct answer is identified and each answer is explained. The number in parentheses at the beginning of each rationale refers to the corresponding section of the content outline. For any questions you answer incorrectly, return to that section of the content outline for further study.

1. Thompson's Jet Skis has an operating cash flow of $218. Depreciation is $45 and interest paid is $35. A net total of $69 was paid on long-term debt. The firm spent $180 on fixed assets and increased net working capital by $38. What is the amount of the cash flow to stockholders?
   1) -$28
   2) $28
   3) -$104
   4) $114

2. Which financial ratios measure a firm's ability to pay its bills over the short run without undue stress?
   1) profitability
   2) asset management
   3) long-term solvency
   4) short-term solvency

3. What is the management of a firm's short-term assets and liabilities called?
   1) working capital management
   2) equity management
   3) capital budgeting
   4) capital structure

4. Which process analyzes which lender to use and the best type of long-term loan for a particular project?
   1) capital budgeting
   2) capital structure decision
   3) working capital management
   4) net working capital decision

5. What provides a forecast of currency receipts and disbursements for the next planning period?
   1) statement of cash flows
   2) receivables analysis
   3) credit analysis
   4) cash budget

6. Which is a cost that should not be considered in a project decision?
   1) opportunity
   2) sunk
   3) erosion
   4) financing

7. Which of the following is an example of systematic (market) risk?
   1) Airline pilots go on strike.
   2) The price of lumber declines sharply.
   3) A hurricane hits a tourist destination.
   4) The Federal Reserve increases interest rates.
8. Systematic risk (market risk) is measured by which of the following?
   1) beta
   2) the mean
   3) the standard deviation
   4) the arithmetic average

9. Which is a symmetrical, bell-shaped frequency distribution that is completely defined by its mean and standard deviation?
   1) bi-modal distribution
   2) Gamma distribution
   3) normal distribution
   4) uniform distribution

10. What term refers to the preference in position of lenders and is also a general term used to label debt?
    1) seniority
    2) security
    3) negative convenant
    4) positive convenant

11. Standard deviation measures which type of risk?
    1) economic
    2) systematic
    3) total
    4) unsystematic

12. All else being held constant, as the variable cost per unit increases, which of the following occurs?
    1) Operating cash flow increases.
    2) Contribution margin decreases.
    3) Sensitivity to fixed costs decreases.
    4) Degree of operating leverage decreases.

13. Which are payments made out of a firm’s earnings to its owners in the form of cash or stock?
    1) dividends
    2) stock splits
    3) distributions
    4) share repurchases

14. Which stock valuation model determines the current stock price by dividing the next annual dividend amount by the excess of the discount rate, less the dividend growth rate?
    1) capital pricing
    2) dividend growth
    3) differential growth
    4) earnings capitalization

15. What is the difference between the present value of an investment and its cost?
    1) net present value
    2) profitability index
    3) internal rate of return
    4) discounted payback period

16. What does the beta of a security provide?
    An estimate of the
    1) market risk premium
    2) systematic risk of the security
    3) slope of the capital market line
    4) slope of the security market line

17. How is the standard deviation for a set of stock returns calculated?
    1) average squared difference between the actual return and the average return
    2) positive square root of the average return
    3) positive square root of the variance
    4) variance squared

18. When was the Sarbanes-Oxley Act enacted?
    1) 1952
    2) 1967
    3) 2002
    4) 2006

19. In which market does the original sale of securities by governments and corporations to the general public occur?
    1) liquidation market
    2) primary market
    3) proprietary market
    4) secondary market
1. (IB4b2)
   1) See 3).
   2) See 3).
   *3) Cash flow of the firm = $218 (operating cash flow) - $38 (increased net working capital) - $180 (amount firm spent) = $0; Cash flow to creditors = $35 (interest paid) - (-$69 (net total paid on long-term debt)) = $104; Cash flow to stockholders = $0 - $104 = -$104
   4) See 3).

2. (IC1c1)
   1) Profitability ratios are used to measure how competently a corporation uses its resources and handles it production.
   2) Asset management ratios are used to measure how competently a corporation uses its resources to create sales.
   3) Long-term solvency ratios are used to measure a corporation’s long-term capacity to meet its financial leverage.
   *4) Short-term solvency ratios are used to measure a corporation’s liquidity or its capacity to pay its bills over the short run without financial stress.

3. (IA2c)
   *1) Working capital management is the administration of a corporation’s immediate assets and liabilities.
   2) See 1).
   3) Capital budgeting is the method of preparation and organization of a corporation’s long-term investments.
   4) A corporation’s capital structure is the particular combination of long-term debt and equity the corporation uses to fund operations.

4. (IA2b)
   1) Capital budgeting is the method of preparation and organization of a corporation’s long-term investments.
   *2) A corporation’s capital structure is the particular combination of long-term debt and equity the corporation uses to fund operations.
   3) Working capital management is the administration of a corporation’s immediate assets and liabilities.
   4) Net working capital refers to the immediate assets minus immediate liabilities.

5. (IG1d)
   1) A corporation’s fiscal statement that reviews its supply and application of currency over a particular time period is called a statement of cash flows.
   2) See 4).
   3) A credit analysis is the method of determining the likelihood that clients will not reimburse.
   *4) A cash budget is an estimate of monetary revenue and expenditures for an upcoming time period.

*correct answer
6. (IIB1)
   1) An opportunity cost is the most expensive option that is given up if a particular venture is taken on.
   *2) A sunk cost is an expenditure that has previously been incurred and consequently should not be considered in a venture decision.
   3) Erosion costs are the cash flows of a new development that come at the expense of a corporation’s existing developments.
   4) Financing costs are the specific combination of debt and equity a corporation decides to apply in funding a project. Financing costs are a managerial decision and largely establish how project cash flows are divided between owners and creditors.

7. (IIB1)
   1) See 4).
   2) See 4).
   3) See 4).
   *4) A systematic (market) risk is a threat that involves a large quantity of assets, each to a greater or lesser degree. Doubts about financial circumstances such as interest rates or inflation are instances of systematic risk.

8. (III E4)
   *1) The quantity of systematic risk contained in a specific risky asset in comparison to the systematic risk contained in an average risky asset is referred to as the beta coefficient.
   2) The mean is the average.
   3) The standard deviation is the positive square root of the variance. The variance is the average squared variation between the actual return and the average return.
   4) See 1).

9. (IV E1c3)
   1) See 3).
   2) See 3).
   *3) A symmetrical, bell-shaped frequency distribution that is defined by its mean and standard deviation is called a normal distribution.
   *correct answer

10. (IVA2c)
    *1) Seniority specifies the preference in position over other lenders, and debts are occasionally labeled as senior or junior to designate seniority.
    2) Debt securities are classified according to the collateral and mortgages used to guard the bondholder.
    3) A protective covenant is an agreement restricting specific actions that may be taken during the life of a loan. It is frequently used to guard the lender's interest.
    4) See 3).

11. (III E3d)
    1) See 3).
    2) A systematic (market) risk is a threat that involves a large quantity of assets, each to a greater or lesser degree. Doubts about financial circumstances such as interest rates or inflation are instances of systematic risk.
    3) Total risk = systematic risk plus unsystematic risk.
    4) Unsystematic risk is risk that affects an individual asset or small collection of assets.

12. (IV D2b)
    1) Operating cash flow = earnings before interest and taxes, plus depreciation, minus taxes. Variable cost per unit is not considered in this calculation.
    *2) The difference between selling price and variable cost is called the contribution margin per unit, and it would decrease in this calculation.
    3) Costs that do not vary when the amount produced varies during a specific period of time are called fixed costs.
    4) The extent to which a corporation or venture relies on fixed costs is referred to as operating leverage.
13. (IVB2a5)

*1) Payments by a corporation to shareholders, made in either currency or stock, are called dividends.
2) A boost in a corporation’s outstanding shares without any variation in owner’s equity is referred to as a stock split.
3) A payment by a corporation to its owners from supplies other than current or accrued retained earnings is referred to as a distribution.
4) See 1).

14. (IVB1a2)

1) See 2).
*2) Capital gains yield is also called the dividend growth rate and is the speed at which the worth of an asset matures.
3) See 2).
4) See 2).

15. (IVD1)

*1) The disparity between an asset’s market price and its actual price is referred to as the investment’s net present value.
2) The present value of an investment’s potential cash flows divided by its original cost is referred to as the profitability index.
3) The reduced rate that makes the net present value (NPV) of an asset zero is called the internal rate of return (IRR).
4) The duration of time necessary for an asset’s discounted cash flows to equal its preliminary price is referred to as the discounted payback period.

16. (III E4b)

1) Market risk premium is the slope of the security market line and is calculated by subtracting the risk-free rate from the expected return on a market portfolio.
*2) The quantity of systematic risk contained in a specific risky asset in comparison to the systematic risk contained in an average risky asset is referred to as the beta coefficient.
3) See 2).
4) See 1).

17. (IVE1c2)

1) This is variance.
2) See 3).
*3) The standard deviation is the positive square root of the variance.
4) See 3).

18. (VA2b)

1) See 3).
2) See 3).
*3) In reaction to corporate scandal at companies such as Enron, WorldCom, Tyco, and Adelphia, Congress passed the Sarbanes-Oxley Act in 2002. The act is supposed to guard investors from corporate maltreatment.
4) See 3).

19. (VA4b1)

1) See 2).
*2) A primary market transaction occurs when a corporation is the seller and the transaction increases funds for the corporation.
3) See 2).
4) A secondary transaction involves one owner or creditor selling to another.

*correct answer
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Register Online

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Follow the instructions and pay by Visa, MasterCard, American Express, or Discover Card.

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You will take the exam by computer, entering your answers using either the keyboard or the mouse. The system is designed to be as user-friendly as possible, even for those with little or no computer experience. On-screen instructions are similar to those you would see in a paper examination booklet.

Before taking your exam, we strongly encourage you to go on a virtual tour of the testing center. To access this tour, click the What to Expect in a Pearson VUE test center at the following link: home.pearsonvue.com/test-taker/security.aspx

You also will receive a small, erasable whiteboard if you need one. You may not take your own calculator. One will be provided on the testing screen. See example below.

On the Day of Your Exam

Important Reminders

On the day of your exam, remember to:

- dress comfortably: the computer will not mind that you’re wearing your favorite relaxation outfit
- arrive at the test site rested and prepared to concentrate for an extended period
- allow sufficient time to travel, park, and locate the test center
- be prepared for possible variations in temperature at the test center due to weather changes or energy conservation measures
• bring your ID, but otherwise, don’t 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 the terms of the Excelsior College Academic Honesty Policy before taking an examination. The agreement will be presented on screen at the Pearson VUE Testing Center before the start of your exam.

• Once the test taker agrees to the terms of the Academic Honesty Nondisclosure Statement, the exam will begin.

If you choose not to accept the terms of the agreement

• your exam will be terminated

• you will be required to leave the testing center

• you will not be eligible for a refund. For more information, review the Student Policy Handbook at [www.excelsior.edu/studentpolicyhandbook](http://www.excelsior.edu/studentpolicyhandbook).

Student behavior is monitored during and after the exam. 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, websites, and other public forums.

**UExcel Grade Report**

After you complete the exam, you will be issued a UExcel Grade Report for Examinations. In this report, you will receive your grade and an explanation of how you performed in each of the Content Areas in the exam, in the Detailed Score Report, in percentages. See the sample UExcel Grade Report in this content guide.

**Information About UExcel Exams for Colleges and Universities**

A committee of teaching faculty and practicing professionals determines the learning outcomes to be tested on each exam. Excelsior College Center for Educational Measurement staff oversee 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 to ensure accuracy, clarity, and compliance with conventions of bias-free language usage.

Excelsior College, the test developer, recommends granting three (3) semester hours of upper-level undergraduate credit to students who receive a letter grade of C or higher on this examination. The examination may be used to help fulfill the course requirement for the BS in General Business or as a free elective for all Excelsior College degree programs that allow for free electives. Other colleges and universities also recognize this exam as a basis for granting credit or advanced standing. Individual institutions set their own policies for the amount of credit awarded and the minimum acceptable score.
If you need an Excelsior College Official Examinations Transcript to document the credit you have earned for this examination for another organization, the request can be made online by accessing the Excelsior College website (www.excelsior.edu), logging into your MyExcelsior account, clicking the MyDetails tab, and scrolling down to the Exams box and clicking on the "Exam Transcript request" link. If you do not already have a MyExcelsior username and password, you can obtain one at no cost by accessing the Excelsior College website, clicking the 'Log In to MyExcelsior' button, and then clicking the link 'Create a MyExcelsior User Account'.

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### UExcel®

**GRADE REPORT FOR EXAMINATIONS**

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<thead>
<tr>
<th>Exam Taker</th>
<th>Contact ID:</th>
<th>Test Date:</th>
<th>Letter Grade:</th>
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Examination Code and Title: 123-456 UExcel Financial Accounting

**Recommended Credit:**

3 Lower Level

Your examination results are expressed as a Letter Grade of A, B, C, or F. Your results are automatically verified when they are received at Excelsior College. If an error is detected, you will be notified immediately.

**Recommended Credit** is the number of semester hours credit that Excelsior College awards and recommends for your grade. Excelsior College awards and recommends credit for letter grades of C or better.

**Detailed Score Report**

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<th>Percentage of Exam Covering Content Area</th>
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*Percentage correct is based on both scored and unscored (pretest) items and was not used to calculate your letter grade.