

## **Accounting and Finance Comprehensive Exam Summary:**

### ***Undergraduate Level***

Peregrine Academic Services (PAS) provides assessment services for performing direct assessment of learning outcomes in a range of academic disciplines. The online exams are used to evaluate retained student knowledge in relation to the academic program's learning outcomes.

**This document outlines the Accounting and Finance assessment service for the associate and bachelor's academic degree levels.**

The assessment service is designed for use by US-based schools and programs.

PAS places a high priority on ensuring the validity and reliability of the assessment services. These practices begin at the design stage and continue through beta-testing, and with ongoing regularly scheduled quality reviews. A description of the approach used to ensure ongoing validity and reliability is provided at the end of this document.

The undergraduate test bank of questions is used for both associate and bachelor's levels because:

- a) The questions are associated with foundational knowledge levels.
- b) Using the same test bank for both associate and bachelor's level testing is an accreditation/articulation requirement for undergraduate transfer students completing a degree program at the associate level and continuing forward with a bachelor's program.

When used for the associate and bachelor's degree exams, the academic program manager selects topics that align with their learning outcomes and the program curriculum (usually 4-6 topics per exam for the associate degree and 10-12 topics for the bachelor's).

The exams include 10 questions for each topic and each exam is unique as questions are selected at random from the test bank with 50-200 questions per topic.

The academic program manager may choose to include additional topics to complement core topic areas. These may be selected from the supplemental topics summarized below.

This document provides information on:

- Topics and sub-topics where applicable, and the subjects covered within each topic or sub-topic.
- Supplemental topics and subjects covered in each topic.
- Example questions.
- Assessment Service Validity and Reliability.

### The Topics and Sub-Topics:

1. Accounting
2. Business Communications
3. Business Ethics in Accounting
4. Business Finance
5. Business Policies, Integration, and Strategic Management

6. Economics
  - a. Macroeconomics
  - b. Microeconomics
7. Global Dimensions of Business Accounting
8. Information Systems
9. Leadership in Accounting
10. Legal Environment of Business
11. Management
  - a. Human Resource Management
  - b. Operations Management
  - c. Organizational Behavior
12. Marketing
13. Quantitative Techniques, Statistics and Research Analysis

Supplemental Topics:

1. Accounting and the Business Environment
2. Activity-Based Costing and Other Cost Management Tools
3. Auditing
4. Capital Budgeting Cash Flows
5. Capital Budgeting Techniques
6. Capital Investment Decisions and the Time Value of Money
7. Cash Flow and Financial Planning
8. Completing the Accounting Cycle
9. Corporations: Effects on Retained Earnings and the Income Statement
10. Corporations: Paid-in Capital and the Balance Sheet
11. Cost Accounting
12. Cost-Volume-Profit Analysis
13. Current Liabilities and Payroll
14. Current Liabilities Management
15. Financial Market Environment
16. Financial Statement Analysis
17. Financial Statements and Ratio Analysis
18. Flexible Budgets and Standard Costs
19. Governmental and Nonprofit Accounting
20. Hybrid and Derivative Securities
21. Interest Rates and Bond Valuation
22. Internal Control and Cash
23. International Managerial Finance
24. Job Order and Process Costing
25. Leverage and Capital Structure
26. Long-Term Liabilities, Bonds Payable, and Classification of Liabilities on the Balance Sheet
27. Merchandising Inventory
28. Merchandising Operations
29. Mergers, LBOs, Divestitures, and Business Failure
30. Overview of Management Accounting
31. Payout Policy
32. Performance Evaluation and the Balanced Scorecard
33. Plant Assets and Intangibles
34. Receivables

35. Recording Business Transactions
36. Risk and Refinements in Capital Budgeting
37. Risk and Return
38. Roles of Managerial Finance
39. Short-Term Business Decisions
40. Stock Valuation
41. Taxation: Corporations
42. Taxation: Individuals
43. The Adjusting Process
44. The Cost of Capital
45. The Master Budget and Responsibility Accounting
46. The Statement of Cash Flows
47. Time Value of Money
48. Working Capital and Current Assets Management

## Topics, Subjects and Example Questions:

### Topic: Accounting

#### **Subjects**

- Accounting Data Analysis (*Questions related to liquidity, use of analysis ratios, and the operating cycle*)
- Balance Sheet Analysis (*Questions related to common-size balance sheet, credit balances, and debit balances*)
- Compliance in Accounting (*Questions related to Sarbanes-Oxley Act, annual reports, quarterly reports*)
- Credits and Debits (*Questions related to how debits and credits are posted to accounts*)
- Dividends, Stocks, and Bonds (*Questions related to stockholders' equity, common stock, and dividend payments*)
- Financial Statement Analysis (*Questions related to valuation, revenues, and income statements*)
- Interest, Income, and Debt (*Questions related to leverage, asset turnover, and liabilities*)
- Journal Entries (*Questions related to posting transactions, accounts receivable, and accounts payable*)
- Management of Accounting (*Questions related to analysis of risk and return, profitability, liquidity, and use of financial statements*)

#### **Example Questions**

A company with \$50,000 in current assets, \$25,000 in quick assets, and \$30,000 in current liabilities makes a payment of a \$1,500 current debt. As a result of this transaction, the current ratio and quick ratio will \_\_\_\_\_.

- A. remain the same and decrease, respectively
- B. increase and decrease, respectively
- C. both increase
- D. All of the above

**Correct Response: B**

A common measure of long-term solvency is the \_\_\_\_\_.

- A. receivable turnover
- B. asset turnover
- C. debt to equity ratio
- D. current ratio

**Correct Response: C**

## **Topic: Business Communications**

### **Subjects**

- The Communication Process (*Questions related to barriers to communications, feedback, fidelity, and filtering*)
- Nonverbal Communications (*Questions related to body language and feedback*)
- Oral and Written Communications (*Questions related to noise, jargon, and transmission*)
- Organizational Communications (*Questions related to upward communication, primary methods of communications, and information overload*)
- Cross-Cultural Communications (*Questions related to coordination and international communication problems*)

### **Example Questions**

Steve is trying to understand the concern of an angry customer, but the customer is so irate Steve is having a difficult time. The customer's emotion is an example of \_\_\_\_\_.

- A. static
- B. feedback
- C. miscommunication
- D. noise
- E. channel deficiency

**Correct Response: D**

All of the following are true about the social process of communication except.

- A. it requires face-to-face interaction
- B. it allows information exchange
- C. it is not an instantaneous event
- D. it involves two or more people
- E. it takes place over time

**Correct Response: A**

## **Topic: Business Ethics in Accounting**

### **Subjects**

- Business Ethical Principles (*Questions related to moral conduct, model of ethical management, misconduct, moral rights, and accounting bias*)
- Ethical Decision-Making and Judgment (*Questions related to business ethics, cheating, ethical judgments, ethical behavior, and principle of rights*)
- Ethical Models (*Questions related to virtue, ethical management, moral climate, and moral development*)
- Ethics Management and Leadership (*Questions related to federal sentencing, compromise, corporate transparency, and corporate governance*)

### **Example Questions**

The sense that concern for fairness, justice, and due process to people, groups, and communities should be woven into managerial decision-making is called \_\_\_\_\_.

- A. integration of managerial and moral competence
- B. moral obligation
- C. moral sensitivity
- D. moral evaluation

**Correct Response: B**

The critical factor in the success of codes of conduct is \_\_\_\_\_.

- A. who wrote the document
- B. giving employees the chance for feedback before the document is adopted
- C. whether or not the codes become "living documents"
- D. the level of precision in defining what is unacceptable behavior

**Correct Response: C**

## **Topic: Business Finance**

### **Subjects**

- Asset Valuation and Inventory (*Questions related to retained earnings, inventory turnover, and ROA*)
- Balance Sheets and Financial Statements (*Questions related to income statements, operating margins, and reporting*)
- Business Analysis Ratios and Calculations (*Questions related to Current Ratio, Free Cash Flow, and use of ratios in financial decision-making/analysis*)
- Interest and Dividends (*Questions related to dividend payments, interest income, and capital gains*)
- Profit, Loss, Cash Flow, and Margins (*Questions related to profit margins, positive/negative cash flows, and reporting losses*)
- Stocks and Bonds (*Questions related to bond yields, municipal bonds, and stock pricing*)
- Tax Rates, Taxes, and Tax Codes (*Questions related to alternative minimum tax, marginal tax rates, and corporate tax rates*)

### **Example Questions**

Which of the following statements is correct?

- A. Borrowing on a long-term basis and using the proceeds to retire short-term debt would improve the current ratio and thus could be considered to be an example of "window dressing."
- B. Offering discounts to customers who pay with cash rather than buy on credit and then using the funds that come in quicker to purchase fixed assets is an example of "window dressing."
- C. Using some of the firm's cash to reduce long-term debt is an example of "window dressing."
- D. "Window dressing" is any action that does not improve a firm's fundamental long-run position and thus increases its intrinsic value.

**Correct Response: A**

Other things held constant, which of the following actions would increase the amount of cash on a company's balance sheet?

- A. The company repurchases common stock.
- B. The company pays a dividend.
- C. The company issues new common stock.
- D. The company gives customers more time to pay their bills.
- E. The company purchases a new piece of equipment.

**Correct Response: C**

## **Topic: Business Policies, Integration, and Strategic Management**

### **Subjects**

- Business-level Strategies (*Questions related to definitions and types of strategies*)
- Competition (*Questions related to multipoint competition, competitive advantages, and global competition*)
- Corporate Mission, Vision, and Values (*Questions related to mission statements, organizational culture, and vision statements*)
- Corporate Strategies (*Questions related to integration, differentiation, and industry analysis*)
- Corporate Structure and Governance (*Questions related to analysis of activity, antitrust, and strategic leadership*)
- Diversification (*Questions related to acquisitions, internal/external incentives, and levels of diversification*)
- Stakeholders and Shareholders (*Questions related to organizational stakeholders, market stakeholders, and return on investment*)
- Strategic Planning and Decision-Making (*Questions related to the strategic management process, total quality management, and strategic mission*)

### **Example Questions**

A firm has achieved \_\_\_\_ when it successfully formulates and implements a value-creating strategy.

- A. strategic competitiveness
- B. a permanently sustainable competitive advantage
- C. substantial returns
- D. legal and ethical core values

**Correct Response: A**

On the most basic level, corporate-level strategy is concerned with \_\_\_\_ and how to manage these businesses.

- A. whether the firm should invest in global or domestic businesses
- B. what product markets and businesses the firm should be in
- C. whether the portfolio of businesses should generate immediate above-average returns or should be troubled businesses which will create above-average returns only after restructuring
- D. whether to integrate backward or forward

**Correct Response: B**



## **Topic: Economics**

### **Sub-Topic: Macroeconomics**

#### **Subjects**

- Consumer Spending and Consumer Price Index (*Questions related to price levels, how CPI is used, and consumer transactions*)
- Economics Trends and Forecasting (*Questions related to economic growth, national savings, and economic policies*)
- Employment and Labor Supply (*Questions related to unemployment rates, recession, and supply capability*)
- Gross Domestic Product: Calculation, Use, Analysis (*Questions related to GDP defined, calculating GDP, and using GDP*)
- Inflation and Recession (*Questions related to depression/recession, inflation rates, and unemployment*)
- Interest Rates, Investment, and Fiscal Policy (*Questions related to government savings, developing fiscal policies, and monetary policy*)
- International Trade (*Questions related to imports/exports, rates, and globalization*)

#### **Example Questions**

Fiscal policy is \_\_\_\_.

- A. often used to stabilize economic expansions
- B. often used to counter the negative impact other factors may have on aggregate demand
- C. often used to counter the positive impact other factors may have on aggregate demand
- D. of no use in countering economic fluctuations
- E. mainly used to keep inflation low and stable

**Correct Response: B**

What best describes what is included in the GDP measure?

- A. Only newly produced goods.
- B. Only newly produced services.
- C. All goods and services sold.
- D. Only newly produced goods and services.
- E. Any economic interaction.

**Correct Response: D**

## Sub-Topic: Microeconomics

### Subjects

- Microeconomic Trends and Analysis (*Questions related to competitive markets, production, and profit maximization*)
- Price, Cost, and Profit (*Questions related to marginal costs, revenue, variable/fixed costs*)
- Spending and Saving (*Questions related to income, individual demand, and consumption*)
- Supply and Demand (*Questions related to consumer demand, supply/demand curves, and market/supply analysis*)

### Example Questions

Which of the following represents the substitution effect of an increase in the price of apples?

- A. A decrease in the consumer's real income.
- B. A decrease in the quantity of apples purchased.
- C. A decrease in the quantities of all goods purchased by the consumer.
- D. A shift of consumption from other goods to apples.
- E. A decrease in the opportunity cost of consuming apples.

**Correct Response: B**

The additional satisfaction gained from consuming one more unit of a product or service is \_\_\_\_\_.

- A. marginal utility
- B. total utility
- C. the same for every person
- D. average utility
- E. not measurable

**Correct Response: A**

## **Topic: Global Dimensions of Business Accounting**

### **Subjects**

- International Financial Management (*Questions related to purchasing power parity, spot exchange rate, and depreciation*)
- Monetary Policy and Exchange Rates (*Questions related to current exchange rate, cross exchange rate, and annualized rate of return*)
- International Financial Markets (*Questions related to foreign exchange currency risk, exchange rate, and multinational financial management*)
- Foreign Investment (*Questions related to inflation rate, equivalent risk domestic bond, and exchange rate risk*)

### **Example Questions**

Solartech Corporation, a U.S. exporter, sold a solar heating station to a Japanese customer at a price of 143.5 million yen, when the exchange rate was 140 yen per dollar. In order to close the sale, Solartech agreed to make the bill payable in yen, thus agreeing to take on exchange rate risk for the transaction. The terms were net 6 months. If the yen fell against the dollar such that one dollar would buy 154.4 yen when the invoice was paid, what dollar amount would Solartech actually receive after it exchanged yen for U.S. dollars?

- A. 1000000
- B. 1025000
- C. 1075958
- D. 929404
- E. 975610

**Correct Response: D**

Hockey skates sell in Canada for 105 Canadian dollars. Currently, 1 Canadian dollar equals 0.71 U.S. dollars. If purchasing power parity (PPP) holds, what is the price of hockey skates in the United States?

- A. 14.79
- B. 71
- C. 74.55
- D. 85.88
- E. 147.88

**Correct Response: C**

## **Topic: Information Systems**

### **Subjects**

- Artificial Intelligence (*Questions related to defining AI*)
- Data and Information (*Questions related to facts vs. assumptions, MIS systems, and the types of information systems*)
- Executive and Decision-Support Systems (*Questions related to the use of DSS, Forecasting, and types of DSS*)
- Expert Systems (*Questions related to use of expert systems, types of expert systems, developing an expert system*)
- Information Management Processes and Procedures (*Questions related to MIS activities, MIS systems, and MIS subsystems*)
- Internal and External Networks (*Questions related to e-commerce, internal vs. external networks, and uses of external networks*)
- Simulation Analysis (*Questions related to optimization, satisficing modules, and simulation environments*)
- Software and Hardware (*Questions related to types of hardware, firewalls, databases, and networks*)
- Telecommunications (*Questions related to virtual networks and teleconferencing*)

### **Example Questions**

The term \_\_\_\_ is used to describe a field in which the computer system takes on the characteristics of human intelligence.

- A. technology diffusion
- B. podcast
- C. telecommunication
- D. artificial intelligence

**Correct Response: D**

The basic goal of \_\_\_\_ is to determine when finished products, such as automobiles or airplanes, are needed and then to work backward to determine deadlines and resources needed, such as engines and tires, to complete the final product on schedule.

- A. simulation
- B. material requirements planning
- C. what-if analysis
- D. optimization

**Correct Response: B**

## **Topic: Leadership in Accounting**

### **Subjects**

- Assessing Leadership Styles (*Questions related to employment agreements, leadership relationships, motivational theories, and leadership styles*)
- Building and Leading Teams (*Questions related to stages in team development, leader-team relationships, and team building*)
- Control and Types of Leader Power (*Questions related to reward power, position power, legitimate power, and influence*)
- Employee Development (*Questions related to leader feedback, delegation, and workforce characteristics*)
- Employee Motivation and Rewards (*Questions related to Equity Theory, physiological needs, motivational theory, rewards and punishment, and authority*)
- Leader Expectations (*Questions related to Pygmalion Effect, task completion, and setting standards*)
- Leader Traits and Attributes (*Questions related to democratic leaders, leader-follower relationships, delegation, ingratiation, authoritarian leaders, Leader-Member Exchange (LMX) Theory*)
- Models of Leadership (*Questions related to Leadership Grid, Behavioral Leadership Theory, Expectancy Theory, Leader-Member Exchange (LMX) Theory, and Situational Leadership*)

### **Example Questions**

The process of building motivators into the job itself by making it more interesting and challenging is known as \_\_\_\_\_.

- A. job enlargement
- B. job enrichment
- C. job enhancement
- D. not of the answers are correct

**Correct Response: B**

Effective leader–follower feedback for poor performance will have the effect of \_\_\_\_\_.

- A. getting the follower to better understand LMX and how it can boost performance
- B. making the leader and follower have greater mutual affection for one another than they did before
- C. pinpointing the undesired behavior while sustaining the follower's self-confidence
- D. all of the answers are correct

**Correct Response: C**

## **Topic: Legal Environment of Business**

### **Subjects**

- Antitrust (*Questions related to interstate commerce, defining antitrust, and monopolies*)
- Civil and Criminal Processes (*Questions related to subpoena, an administrative agency, and judicial review*)
- Consumer Protection (*Questions related to consumer protection laws and regulatory agencies*)
- Equal Employment Opportunity (*Questions related to contract employees, severance pay, employment agreements*)
- Financial Regulation (*Questions related to corporate income, capital, and the SEC*)
- Government Regulation of Businesses (*Questions related to administrative agencies, legislative rules, federal agencies, and interested parties*)
- Legal Agreements and Documents (*Questions related to incorporation, trademarks, shareholder agreements, and contracts*)
- Liability (*Questions related to limited liability, personal liability, and limited liability companies*)
- Types of Business Organizations (*Questions related to partnerships, sole proprietorship, LLC, and corporations*)

### **Example Questions**

Rudy operates Silver Buckles, a small-business equine enterprise. To raise capital, Rudy contacts Thad, a venture capitalist. Besides capital, Thad will most likely \_\_\_\_\_.

- A. assist in the drafting of a business plan
- B. decline a proportion of future profits
- C. offer assistance with respect to business strategy
- D. refrain from demanding operational control

**Correct Response: C**

Pure Water Company is subject to a decision by the Environmental Protection Agency. Pure Water appeals the decision, arguing that it is arbitrary and capricious. This could mean that the decision \_\_\_\_\_.

- A. changed the agency's prior policy without justification
- B. followed a consideration of all relevant factors
- C. was accompanied by a rational explanation
- D. was plainly warranted by the evidence

**Correct Response: A**

## **Topic: Management**

### **Sub-Topic: Human Resource Management**

#### **Subjects**

- HR Manager Roles and Responsibilities (*Questions related to cultural audits, internal analysis, and HR Manager activities*)
- HR Planning (*Questions related to Mission/Vision/Values, trend analysis, and strategic HRM*)
- Recruiting and Retention of Employees (*Questions related to core knowledge, succession planning, and organizational structure*)
- Staffing Decisions (*Questions related to contract labor, the Delphi Technique, and forecasting*)

#### **Example Questions**

The examination of the attitudes and activities of a company's workforce refers to \_\_\_\_\_.

- A. environmental scanning
- B. a trend analysis
- C. a cultural audit
- D. behavioral modeling

**Correct Response: C**

Human Resources Planning (HRP) involves all of the following except \_\_\_\_\_.

- A. anticipation of labor shortages and surpluses
- B. providing more employment opportunities for women, minorities and the disabled
- C. calculating the estimated cost of human capital for the fiscal year
- D. mapping out employee training programs

**Correct Response: C**

## Sub-Topic: Operations/Production Management

### Subjects

- Continuous Improvement (*Questions related to Zero Defects, TQM, and Six Sigma*)
- Cost Control (*Questions related to machine down time, cost of quality, and recalls/warranty claims*)
- Data Analysis Tools (*Questions related to Pareto diagram, GAP Models, and Cause-and-Effect diagrams*)
- Quality Management (*Questions related to SERVQUAL, ISO 9000, Six Sigma/TQM*)

### Example Questions

Which of the following describes the quality definition of fitness for use?

- A. Perfection and consistency in goods and service quality.
- B. Doing it right the first time.
- C. Conforming to design specifications.
- D. The ability of a good or service to meet customer needs.

**Correct Response: D**

A tool to help focus on the most significant problems is \_\_\_\_\_.

- A. flow charts
- B. pareto analysis
- C. cause and effect diagram
- D. scatter diagram

**Correct Response: B**



## Sub-Topic: Organizational Behavior

### Subjects

- Corporate Culture and Climate (*Questions related to drivers of change, corporate management, and norms/ethics*)
- Individual and Group Dynamics (*Questions related to workforce diversification, skill development, employee interactions*)
- Organizational Charts and Structure (*Questions related to formal/informal organizational charts, change, and organizational levels*)
- Organizational Mission, Vision, and Values (*Questions related to role of values in corporate culture, mission/vision statements, and behaviors*)

### Example Questions

An unlikely basis for an organization's culture is \_\_\_\_\_.

- A. the vision of the corporate founder
- B. expectations of leadership
- C. the performance evaluation-reward system
- D. the location of the organization's manufacturing and distribution facilities

**Correct Response: D**

Assumptions are \_\_\_\_\_.

- A. deeply held beliefs that guide behavior of employees
- B. widely known and formally communicated throughout the organization
- C. behavioral tendencies or enacted values
- D. unwritten rules of conduct frequently violated by new employees

**Correct Response: A**

## **Topic: Marketing**

### **Subjects**

- Marketing Research, Planning, and Strategy (*Questions related to developing a marketing plan, marketing strategies, and defining the market*)
- People (*Questions related to defining the customers, buyers, and consumers*)
- Place (*Questions related to positioning strategies, demand for goods and services, and perceptual maps*)
- Price (*Questions related to retailers, price elasticity, and competition*)
- Product (*Questions related to product life cycle, packaging, and product portfolios*)
- Promotion (*Questions related to product differentiation, demand curves, and market advantage*)

### **Example Questions**

\_\_\_\_\_ firms are those that successfully generate, disseminate, and respond to market information.

- A. Customer oriented
- B. Information oriented
- C. Satisfaction oriented
- D. Market oriented
- E. Competitive oriented

**Correct Response: D**

Which of the following IS NOT a situation that can cause customers to be less sensitive to price increases?

- A. When customers have few product choices.
- B. When products are highly differentiated.
- C. When the product is a real or a perceived necessity.
- D. When the total expenditure is high.
- E. When the product is considered to be "worth it".

**Correct Response: D**

## **Topic: Quantitative Techniques, Statistics. And Research Analysis**

### **Subjects**

- Descriptive Statistics (*Questions related to standard deviation, variance, and sample mean*)
- Hypothesis Testing (*Questions related to testing approaches and accepting/rejecting a hypothesis*)
- Inferential Statistics (*Questions related to decision trees, influence of sample size, and population means*)
- Population Sampling (*Questions related to random sampling, sampling distributions, and sampling errors*)
- Probability (*Questions related to calculating probability, power curve, probability distributions*)
- Significance Levels (*Questions related to expected value of sample information, expected value of perfect information, and use of significance levels*)
- Type I and Type II Errors (*Questions related to defining and understanding Type I and Type II errors*)

### **Example Questions**

Since the sample size is always smaller than the size of the population, the sample mean \_\_\_\_\_.

- A. must always be smaller than the population mean
- B. must be larger than the population mean
- C. must be equal to the population mean
- D. can be smaller, larger, or equal to the population mean

**Correct Response: D**

In hypothesis testing if the null hypothesis has been rejected when the alternative hypothesis is true then \_\_\_\_\_.

- A. a Type I error has been committed
- B. a Type II error has been committed
- C. either a Type I or Type II error has been committed
- D. the correct decision has been made

**Correct Response: D**

## **Supplemental Accounting and Finance Topics and Subjects used to customize an exam**

### **Topic: Accounting and the Business Environment**

#### **Subjects**

- Accounting Concepts and Principles
- Accounting Equation to Analyze Transactions
- Accounting Equation, and Assets, Liabilities, and Equity
- Accounting Vocabulary
- Different Types of Business Organizations
- Financial Statements
- Financial Statements to Evaluate Business Performance
- The Accounting Professional and Organizations that Govern It
- The Distinguishing Characteristics and Organization of a Corporation
- Users of Financial Information

### **Topic: Activity-Based Costing and Other Cost Management Tools**

#### **Subjects**

- Activity-Based Costs (ABC)
- Activity-Based Management (ABM) for Target Costs
- Just-in-Time (JIT) Production System
- The Four Types of Quality Costs to Make Decisions

### **Topic: Auditing**

#### **Subjects**

- Audit Reports
- Legal Liability
- Audit Evidence
- Audit Planning and Analytical Procedures
- Fraud Auditing
- Audit Strategy and the Audit Program
- Completing the Audit
- Internal and Government Financial Auditing and Operations Auditing

### **Topic: Capital Budgeting Cash Flows**

#### **Subjects**

- Cash Flow, Expansion and Replacement Decisions, Sunk and Opportunity Costs, and
- International Capital Budgeting
- Initial Investment Associated with Proposed Capital Expenditure
- Operating Cash Inflow Associated with Proposed Capital Expenditure
- Sale of an Old Asset
- Terminal Cash Flow Associated with Proposed Capital Expenditure
- Three Major Cash Flow Components

### **Topic: Capital Budgeting Techniques**

#### **Subjects**

- Capital Budgeting Process
- Internal Rate of Return (IRR)
- Net Present Value Profiles
- NPV and IRR Conflicting Rankings and Theoretical and Practical Strengths
- Payback Period
- Present Value (NPV) and Economic Value Added (EVA)

## **Topic: Capital Investment Decisions and the Time Value of Money**

### **Subjects**

- Discounted Cash Flow Models to make Capital Investment Decisions
- The Importance of Capital Investments and the Capital Budgeting Process
- The Payback Period and Rate of Return Methods for Capital Investment Decisions
- Time Value of Money to Compute Present and Future Values of Single Lump Sums and
- Annuities

## **Topic: Cash Flow and Financial Planning**

### **Subjects**

- Cash-Planning Process and Cash Budget
- Financial Planning Process
- Firm's Cash Flow, Operating Cash Flow, and Free Cash Flow
- Pro Forma Income Statement and Balance Sheet
- Pro Forma Preparation and Common Uses
- Tax Depreciation Procedures

## **Topic: Completing the Accounting Cycle**

### **Subjects**

- Accounting Worksheet
- Assets and Liabilities as Current or Long-term
- Closing of Revenue, Expense, and Dividend Accounts
- Post-Closing Trial Balance
- Reversing Entries
- The Effect of Various Transactions on the Current Ratio and the Debt Ratio

## **Topic: Corporations: Effects on Retained Earnings and the Income Statement**

### **Subjects**

- Corporate Income Statement Including Earnings per Share
- Restrictions on Retained Earnings
- Stock Dividends
- Stock Splits
- Treasury Stock

## **Topic: Corporations: Paid-in Capital and the Balance Sheet**

### **Subjects**

- Cash Dividends
- Different Stock Values in Decision Making
- Income Tax of a Corporation
- Issuance of Stock and Stockholders' Equity Section of a Corporation Balance Sheet
- Issuing Bonds Compared to Issuing Stocks
- Retained Earnings Transactions
- Return on Assets and Return on Stockholders' Equity
- The Characteristics of a Corporation
- The Two Sources of Stockholders' Equity and the Classes of Stock

## **Topic: Cost Accounting**

### **Subjects**

- Activity-based Costing and Activity-based Management
- Cost Terms and Purposes
- Cost-Volume-Profit Analysis
- Job Costing
- Master Budget and Responsibility Accounting

### **Topic: Cost-Volume-Profit Analysis**

#### **Subjects**

- Breakeven Point for Multiple Products or Services
- Changes in Volume Affect Costs
- CVP Analysis for Breakeven Points
- CVP Analysis for Profit Planning and CVP Relations
- CVP Methods to Perform Sensitivity Analyses
- Variable Costing and Absorption Costing

### **Topic: Current Liabilities and Payroll**

#### **Subjects**

- Current Liabilities of Known Amount
- Current Liabilities that must be Estimated
- Payroll and Payroll Tax Amounts
- Payroll Transactions

### **Topic: Current Liabilities Management**

#### **Subjects**

- Accounts Payable and Credit Terms
- Commercial Paper Features and International Short-Term Loans
- Interest Rates and Basic Types of Unsecured Bank Sources of Short-Term Loans
- Inventory Use as Short-Term-Loan Collateral
- Secured Short-Term Loans Characteristics and Accounts Receivable as Short-Term-Loan
- Collateral
- Stretching Accounts Payable on Cost and Use of Accruals

### **Topic: Financial Market Environment**

#### **Subjects**

- 2008 Financial Crisis and Recession
- Business Taxes and Financial Decisions
- Capital Markets and Money Markets
- Functions of Financial Institutions and Financial Markets
- Regulations and Regulatory Bodies Affecting Financial Institutions and Markets
- Role of Financial Institutions in Managerial Finance

### **Topic: Financial Statement Analysis**

#### **Subjects**

- Common-Size Financial Statements
- Horizontal Analysis of Financial Statements
- Standard Financial Ratios
- Vertical Analysis of Financial Statements

### **Topic: Financial Statements and Ratio Analysis**

#### **Subjects**

- Debt and Financial Leverage
- Financial Ratio and DuPont System of Analysis
- Financial Ratios
- Firm's Profitability and Market Value
- Ratios to Analyze Firm's Liquidity and Activity
- Stockholders' Report and Consolidation of International Financial Statements

## **Topic: Flexible Budgets and Standard Costs**

### **Subjects**

- Benefits of Standard Costs and How Set Standards
- Flexible Budget for Income Statement
- Income Statement Performance Report
- Manufacturing Overhead in a Standard Cost System
- Standard Cost Variances for Direct Materials and Direct Labor
- Transactions at Standard Cost and a Standard Cost Income Statement

## **Topic: Governmental and Nonprofit Accounting**

### **Subjects**

- Accounting for Colleges and Universities
- Accounting for Health Care Organizations
- Auditing Governments and Nonprofit Organizations
- Federal Government Accounting
- Governmental and Nonprofit Accounting - Environment and Characteristics
- State and Local Government Accounting and Financial Reporting

## **Topic: Hybrid and Derivative Securities**

### **Subjects**

- Convertible Securities
- Hybrid and Derivative Securities
- Lease Types, Leasing Arrangements, Leasing Effects on Future Financing, and Advantages and Disadvantages
- Options, Calls and Puts, Options Markets and Options Trading, Role of Call and Put
- Options in Fund Raising, and Hedging Foreign-Currency Exposures
- Stock Purchase Warrants, Implied Price of Attached Warrant, and Values of Warrants
- Straight Bond Value Procedures, Conversion Value, and Market Value of Convertible Bond

## **Topic: Interest Rates and Bond Valuation**

### **Subjects**

- Bond Financing and Bond Cost
- Bond Valuation Process
- Corporate Bonds
- Interest Rate Fundamentals
- Valuation Model of Bonds and Maturity of Bond Values
- Yield to Maturity (YTM)

## **Topic: Internal Control and Cash**

### **Subjects**

- Bank Reconciliation and Journals for Related Entries
- Components of Internal Control and Control Procedures
- Control Procedures Unique to E-Commerce
- Ethical Dilemmas in an Internal Control Situation
- Internal Control
- Internal Controls to Cash Payments
- Internal Controls to Cash Receipts
- Petty Cash Transactions
- Sarbanes-Oxley Act
- Use of a Bank Account as a Control Device

### **Topic: International Managerial Finance**

#### **Subjects**

- Domestic and International Financial Statements—Consolidation, Translation of Individual
- Accounts, and International Profits
- Eurocurrency Market in Short-Term Borrowing and Investing and International Cash, Credit, and Inventory Management
- Exchange Rate Risk and Political Risk
- Financial Operations of Multinational Companies (MNCs)
- Foreign Direct Investment, Investment Cash Flows and Decisions, MNCs' Capital
- Structure, and International Debt and Equity Instruments Available to MNCs
- Trends in International Mergers and Joint Ventures

### **Topic: Job Order and Process Costing**

#### **Subjects**

- Completion and Sales of Finished Goods and Adjustment Under- or Over-allocated
- Overhead
- Job Order Costing and Process Costing
- Materials and Labor in a Job Order Costing System
- Overhead in a Job Order Costing System
- Process Costing System — Weighted-Average Method
- Unit Costs for a Service Company

### **Topic: Leverage and Capital Structure**

#### **Subjects**

- Capital Structure
- Capital Structure with Cost-of-Capital Function and Zero-Growth Valuation Model
- EBIT—EPS Approach to Capital Structure
- Leverage, Capital Structure, Breakeven Analysis, Operating Breakeven Point, and
- Changing Costs
- Operating, Financial, and Total Leverage
- Return and Risk of Alternative Capital Structures

### **Topic: Long-Term Liabilities, Bonds Payable, and Classification of Liabilities on the Balance Sheet**

#### **Subjects**

- Bonds Payable
- Interest Expense on Bonds with the Straight-Line Amortization Method
- Liabilities on the Balance Sheet
- Long-Term Notes Payable and Mortgages Payable
- Retire Bonds Payable
- Time Value of Money: Present Value of a Bond and Effective-Interest Amortization

### **Topic: Merchandising Inventory**

#### **Subjects**

- Accounting Principles Related to Inventory
- Effects of Inventory Errors
- Effects of the Three Most Common Inventory Costing Methods
- Ending Inventory by Gross Profit Method
- Inventory Costing Methods
- Lower-of-Cost-or-Market Rule to Inventory
- Periodic Inventory Using the Three Most Common Costing Methods



## **Topic: Merchandising Operations**

### **Subjects**

- Accounts of a Merchandising Business
- Gross Profit Percentage, Inventory Turnover, and Days in Inventory to Evaluate a Business
- Merchandiser's Financial Statements
- Merchandising Operations and the Two Types of Inventory Systems
- Purchase of Inventory Using a Perpetual System
- Sale of Inventory Using a Perpetual System
- The Sale of Inventory Using a Periodic System

## **Topic: Mergers, LBOs, Divestitures, and Business Failure**

### **Subjects**

- Bankruptcy Legislation and Reorganizing or Liquidating a Bankrupt Firm
- Fundamentals of Mergers
- Leveraged Buyouts (LBOs) and Divestitures
- Merger Negotiation Process, Holding Companies, and International Mergers
- Types and Major Causes of Business Failure and Voluntary Settlements to Sustain or Liquidate Failed Firm
- Value the Target Company Procedures and Stock Swap Transactions

## **Topic: Overview of Management Accounting**

### **Subjects**

- Costs and Income Statement and Statement of Cost of Goods Manufactured for a Manufacturing Company
- Costs and Income Statement for a Merchandising Company
- Costs and Income Statement for a Service Company
- Ethical Standards in Decision Making
- Management Accounting from Financial Accounting
- Trends in the Business Environment and Role of Management Accountability

## **Topic: Payout Policy**

### **Subjects**

- Cash Payout Procedure and Dividend Reinvestment Plan
- Establishment of Dividend Policy
- Residual Theory of Dividends
- Stock Dividends
- Stock Splits
- Three Basic Types of Dividend Policies

## **Topic: Performance Evaluation and the Balanced Scorecard**

### **Subjects**

- Balanced Scorecard and Key Performance Indicators for Each Perspective
- Performance Reports to Evaluate Cost, Revenue, and Profit Centers
- ROI, RI, and EVA to Evaluate Investment Centers
- Why and How Companies Decentralize
- Why Companies Use Performance Evaluation Systems

## **Topic: Plant Assets and Intangibles**

### **Subjects**

- Cost of a Plant Asset
- Depreciation
- Disposal of an Asset by Sale or Trade
- Ethical Issues Related to Plant Assets
- Intangible Assets
- Natural Resources

## **Topic: Receivables**

### **Subjects**

- Allowance Method to Account for Uncollectibles
- Common Types of Receivables and Internal Controls for Receivables
- Direct Write-Off Method for Uncollectibles
- Discounting a Note Receivable
- Journal Credit-Card and Debit-Card Sales
- Notes Receivable
- Receivables on a Balance Sheet, Acid-Test Ratio, Days' Sales in Receivables, Accounts
- Receivable Turnover Ratio for Credit-Card, Debit-Card, and Credit-/Debit-Card

## **Topic: Recording Business Transactions**

### **Subjects**

- Accounts, Journals, and Ledgers related to Recording Transactions and Common Accounts
- Debits, Credits, and Normal Account Balances, and Double-Entry Accounting and T-Accounts
- Journalize and Posting Transactions to Ledger
- Steps of Transaction Recording Process
- Trial Balance from T-Accounts

## **Topic: Risk and Refinements in Capital Budgeting**

### **Subjects**

- Annualized Net Present Values (ANPVs).
- Capital Budgeting Project Risk Analysis
- Cash Inflows, Scenario Analysis, and Simulation Risk
- Real Options and Capital Rationing
- Risk-Adjusted Discount Rates (RADRs)
- Unique Risks of Multinational Companies

## **Topic: Risk and Return**

### **Subjects**

- Capital Asset Pricing Model (CAPM) and Security Market Line (SML)
- Portfolio Measurement of Return and Standard Deviation, and Correlation
- Portfolio Risk and Return Characteristics
- Risk Assessment and Measurement of a Single Asset
- Risk Types and Beta Measurement Risks in Security and Portfolio
- Risk, Return, and Risk Preferences

## **Topic: Roles of Managerial Finance**

### **Subjects**

- Goal of Firm and Maximizing Value of Firm as a Goal for a Business
- Managerial Finance Function Related to Economics and Accounting
- Primary Activities of the Financial Manager
- Principle-Agent Relationships Between Owners and Managers of a Corporation and
- Various Corporate Governance Mechanisms to Manage Agency Problems
- The Finance and the Managerial Finance Function
- The Legal Forms of Business Organization

## **Topic: Short-Term Business Decisions**

### **Subjects**

- Dropping a Product and Product-Mix Decisions
- Information Relevant to Business Decisions
- Outsourcing and Sell as is or Process Further Decisions
- Special Order and Pricing Decisions

## **Topic: Stock Valuation**

### **Subjects**

- Common and Preferred Stock
- Debt and Equity
- Financial Decisions, Return, Risk, and Firm Value
- Free Cash Flow Valuation Model, Book Value, Liquidation Value, and Price/Earnings
- Approaches
- Issue Common Stock
- Market Efficiency and Basic Stock Valuation

## **Topic: Taxation: Corporations**

### **Subjects**

- Administrative Procedures
- Consolidated Tax Returns
- Corporate Acquisitions and Reorganizations
- Corporate Liquidating Distributions
- Corporate Non-liquidating Distributions
- The Corporate Income Tax
- The Estate Tax
- The Gift Tax

## **Topic: Taxation: Individuals**

### **Subjects**

- Deductions and Losses
- Determination of Tax
- Gross Income: Exclusions
- Gross Income: Inclusions
- Itemized Deductions
- Losses and Bad Debts
- Property Transactions: Capital Gains and Losses
- Taxation Overview

### **Topic: The Adjusting Process**

#### **Subjects**

- Accounting Period Concept, Revenue Recognition and Matching Principles, and Time
- Period Concept
- Accrual and Cash-Basis Accounting
- Adjusted Trial Balance
- Adjusting Entries
- Financial Statements From Adjusted Trial Balance
- Journalize and Post Adjusting Entries

### **Topic: The Cost of Capital**

#### **Subjects**

- Concept and Sources of Capital
- Cost of Common Stock Equity
- Cost of Preferred Stock
- Long-Term Debt
- Marginal Cost of Capital
- Weighted Average Cost of Capital (WACC) and Alternative Weighting Schemes

### **Topic: The Master Budget and Responsibility Accounting**

#### **Subjects**

- Components of the Master Budget
- Financial Budget
- Operating Budget
- Performance Reports for Responsibility Centers and Traceable and Common Shared Fixed
- Costs
- Sensitivity Analysis in Budgeting
- Why Managers Use Budgets

### **Topic: The Statement of Cash Flows**

#### **Subjects**

- Cash Flows
- Noncash Investing and Financing Activities
- Operating, Investing, and Financing Cash Flows
- Purposes of Statement of Cash Flows
- Statement of Cash Flows by the Direct Method
- Statement of Cash Flows by the Indirect Method

### **Topic: Time Value of Money**

#### **Subjects**

- Annuity and Perpetuity.
- Compounding Interest on Future Value and Rate of Interest
- Deposits, Loan Amortization, Growth Rate Interests, and Unknown Number of Periods
- Future and Present Value of Mixed Stream of Cash Flows
- Future Value and Present Value
- Time Value, Computational Tools, and Cash Flow Patterns

## **Topic: Working Capital and Current Assets Management**

### **Subjects**

- Cash Conversion Cycle
- Cash Discount Changes, Credit Terms, and Credit Monitoring
- Credit Selection Process and Quantitative Procedure for Credit Standard Changes
- Inventory Management
- Management of Receipts and Disbursements
- Working Capital Management and Net Working Capital

## Assessment Service Validity and Reliability

### Introduction

The programmatic assessment services provided by Peregrine Academic Services (PAS) are used to assess retained knowledge of students at various academic degree levels. Schools deploy these services to evaluate the effectiveness of their academic programs, identify areas for improvement, and demonstrate program outcomes to external stakeholders.

PAS places a high priority on ensuring the validity and reliability of the assessment services. These practices begin at the design stage and continue through beta-testing, and with ongoing regularly scheduled quality reviews. The following outlines the approaches used to ensure ongoing validity and reliability.

**Validity** refers to the extent to which the test banks and the services measure the phenomena under consideration.

**Reliability** refers to the extent to which the exam results are repeatable and therefore data sets can be compared over time.

### Design Features that Impact Validity and Reliability

The following features apply to all assessment services.

- Exam scoring is 100% objective using automated marking.
- Each exam viewed by a student is unique using a random selection of questions from the test bank in random topic order.
- Timed response periods for questions. When the user navigates away from the exam screen, the screen fades, a message appears informing the user that he/she has left the exam window and the questions are timed.
- Students are unable to copy/paste from the exam window.
- The exam services meet the security requirements for Management of Information Technology (MIS) Sarbanes-Oxley (SOX) compliant organizations.
- Abandoned exams are excluded from summary reports.

## **Ensuring Ongoing Validity and Reliability**

### **Validity**

To ensure test bank validity, the following measures were adopted when the initial test banks were created. The same principles are used with subsequent changes to the test banks.

- The specific accreditation or certification requirements related to learning outcomes evaluation were used to determine the topics and subjects for the test banks.
- Current teachings for each topic were considered regarding the foundational level of each test bank.
- Exam questions were written and reviewed by academic professionals within each discipline. Similar subject matter experts are used with subsequent editing and for new questions.
- Each topic has questions designated for 4-8 subjects per topic to help ensure appropriate breadth of coverage and allow for specific learning outcomes measurement.
- Exam responses are either correct or incorrect with only one possible correct choice. Scores are determined by summarizing the percent correct: per subject, per topic, and by total score.

### **Reliability**

PAS contracted with external experts to design a comprehensive and statistically sound approach to measuring assessment service reliability. The result is that each year, a *Reliability Report* is generated for each assessment service. The report generates data for several reliability metrics and the data for each are compared with acceptability criteria to determine which test questions should be modified or replaced. Subject matter experts in the field are then contracted to modify/replace the targeted questions. Hence, the assessment service is regularly reviewed and improved to ensure ongoing reliability.

Reliability is determined by measuring *Item Difficulty*, *Item Discrimination* and *Question Interchangeability*.

**Item Difficulty** refers to percentage of students who answer questions correctly. Data are generated by topic and for each individual question. The target Item Difficulty is 60 percent correct with an acceptable range of 35 – 80 percent.

**Item Discrimination** refers to how well a question distinguishes between those students with more knowledge (higher overall exam scores) from those with less knowledge. Two measures are used: *Discrimination Index* and *Point-Biserial Correlation*.

For a given question, the Discrimination Index compares the scores of students with high overall test scores with students with low overall test scores. The scale is -1 to +1, with higher values indicating that a given question better distinguishes between high and low performing students. A value of  $\geq 0.20$  is considered acceptable.

Point-Biserial Correlation is equal to the Pearson's Correlation Coefficient between the scores on the entire exam and the scores on a specific question. A score of  $\geq 0.10$  is considered acceptable.

When assessing the quality of questions, both the Discrimination Index and the Point-Biserial Correlation Coefficient are reviewed.

**Question Interchangeability** refers to the ability to substitute a question in the test bank with another without significantly affecting the total score that an individual would receive on the exam. This is determined using Cohen's Effect Size  $d$  calculated based on a two-tailed  $t$ -test comparing the total score for all students who had that question in their exam versus the total score of the students who did not have that question in their exam. The scale is 0-1.0 and a score of  $< 0.20$  is considered acceptable.