

MCE Finance Quiz: How Much Do You Really Know About Finance?

MCE Article

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How Much Do You Really Know About Finance?

How many times have you been sitting in a meeting and you have felt totally lost because you simply don't understand all the finance jargon? Your Director of Finance keeps talking about assets, capitalization, debt and equity financing, financial ratios, present value index...

But what do these terms really mean? How many of them do you already know?

To find out take our 10 question quiz and see how much you really know about finance.

It's fun, simple and takes just a few minutes. So let's go...

Balance Sheet

Return on Assets

Internal Rate of Return

Income Statement Return on Capital Employed

EBITDA Return on Equity

How Much Do You Really Know About Finance?

Q1

GAAP refers to financial accounting principles that are compulsory in all countries around the globe.

- a) True
- b) False

Q2

The **Balance Sheet** is an important financial statement that needs to be produced at the end of a fiscal period. It shows the company financial situation in terms of:

- a) Funds Available vs Use of Funds
- b) Current assets vs. Current liabilities
- c) Total fixed assets vs. Total Equity

Q3

The **Income Statement** is crucial for companies because it summarizes over a given period of time:

- a) the company's revenues and costs
- b) the company's sales and the costs of goods sold
- c) the contributions to the company's profit or loss

Q4

EBITDA is a cash oriented profitability measure that stands for Earnings Before Interest, Tax, Depreciation & Amortization. It is calculated as follows:

- a) Gross Profit less Depreciation and Amortization
- b) Operating Profit, Depreciation and Amortization
- c) EBIT less taxes and Interest

Q5

A company's liquidity is considered being safe when

- a) Its Acid Test is above 1
- b) Its Current Ratio is less than 1
- c) Its Quick Ratio is less than 1

How Much Do You Really Know About Finance?

Q6

ROA, ROE, ROCE are profitability ratios. Which one measures management efficiency in using assets to generate earnings?

- a) ROA (Return on Assets)
- b) ROE (Return on Equity)
- c) ROCE (Return on Capital Employed)

Q7

The **DPO** is one of the company activity ratios used to measure

- a) The average number of days needed to collect money from customers
- b) The average number of days inventories are held
- c) The average number of days needed to pay suppliers

Q8

OWC stands for 'Operating Capital' and generally, companies try to keep it low. What are the levers used to reduce OWC?

- a) Accounts Receivables, Inventory and Accounts Payables
- b) Working Capital, Loans and Debts
- c) Production Costs, Early revenue payment, Delayed Suppliers Payment

Q9

What is the most popular investment decision making tool for cash flow forecast?

- a) Payback Period (PP)
- b) Net Present Value (NPV)
- c) Internal Rate of Return (IRR)

Q10

The contribution towards covering fixed costs from selling one more unit of the product or service is called Contribution Margin per unit and is calculated as follows:

- a) Unit Revenue Price minus Unit Variable Cost
- b) Total Revenue minus Fixed and Variable costs
- c) Profit per Unit minus Unit Fixed Costs

So How Well Did You Do?

Give yourself 10 points for every correct answer.

ANSWERS:

- Q1:** (b) This is false, GAAP are issued by the Financial Accounting Standards Board (FASB) and are compulsory for all companies issuing audited financial statements in the United States. .../10
- Q2:** (a) The Balance sheet is a basic document of account. It traditionally consists of two columns, headed respectively "Liabilities" and "Assets". The term "Funds" is often used together or in replacement for "Liabilities". The Balance Sheet shows the balance between the Total Assets (what the money has been spent on) and the total Funds/Liabilities (where the money comes from, or sources). .../10
- Q3:** (a) The Income Statement, commonly called the Profit/Loss Statement, captures all gross revenues and all related costs over a period of time. .../10
- Q4:** (b) EBITDA is the sum of EBIT, or Operating Profit, and Depreciation. .../10
- Q5:** (a) These liquidity ratios measure the company's ability to meet its short term financial obligations. To be safe, a company must have a high Quick Ratio, called also "Acid Test". .../10
- Q6:** (a) ROA measures the company profitability in using assets to generate profit and is calculated by dividing net profit by total assets. .../10
- Q7:** (c) DPO stands for "Days Payment Outstanding". It measures the number of days for suppliers' invoice payment. .../10
- Q8:** (a) To limit operating working capital, you need to reduce inventory, reduce accounts receivables and increase accounts payables. .../10
- Q9:** (a) Payback period is the most popular tool to decide on investment. It is easy to calculate and simple to understand, therefore it minimizes risks. .../10
- Q10:** (a) It calculates how much money is left to cover fixed costs and how much profit is left after covering fixed costs. .../10

How Many Points Did You Score?

From 70 to 100 points

Congratulations! You did well. You have a good knowledge of the essential finance terms needed to be a great manager and leader. You know the difference between ROA, ROE and ROCE. If you would like to take your Finance knowledge even further, we would recommend our **"Finance Excellence"** Open Enrolment Programme. This programme will help you discover new ways to use your financial knowledge and skills to create greater value and success across your organization.

From 30 to 60 points

Good work. You know quite a few finance terms and you should be proud of yourself. You probably feel quite comfortable with some basic financial conversations. If you would like to be able to understand all the essential financial terms, we would recommend the **"Fundamentals of Finance for Non-Financial Managers"** Open Enrolment Programme. This programme will help you build the key skills you need to understand, interpret and act on financial information.

From 0 to 20 points

You are probably an expert in your field of marketing, sales, engineering or another area. But finance maybe needs some more work. At MCE, we can help you get all the key skills you need to understand, interpret and act on financial information and feel more comfortable in those finance meetings. We would recommend the **"Fundamentals of Finance for Non-Financial Managers"** Open Enrolment Programme which runs frequently throughout the year.

About MCE

MCE, as part of the AMA Global, is a leading Learning and Development Provider in Europe, Middle East and Africa. We inspire more than 1,000 organizations and over 10,000 managers and leaders each year through our Open Enrolment Programmes and Customized Learning Solutions.

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