

Chapter 10

1. A broker requires a loan to expand the company's operations. As part of the application, the lender requires documents that, taken together, provide a picture of the company's fiscal condition called
 - a. balance sheets.
 - b. profit and loss statements.
 - c. income and expense statements.
 - d. financials.
2. The report that provides a snapshot of the organization's general financial position as of the date that it is prepared is called
 - a. the income statement.
 - b. the balance sheet.
 - c. the operating budget.
 - d. the cash flow statement.
3. The accounting method that reports entries in the period in which they were paid is called
 - a. the cash method.
 - b. the accrual method.
 - c. the operating method.
 - d. the declining years method.
4. Which cost is a variable expense?
 - a. Brokerage fees
 - b. Rent
 - c. Depreciation
 - d. Cost of sales
5. Upper management of the brokerage firm wants to know how much money it actually has on hand. What reports receipts and disbursements?
 - a. Income statement
 - b. Cash flow statement
 - c. Balance sheet
 - d. Financial projections
6. Which of the following enables a real estate company to make it through a six-month downturn in real estate sales?
 - a. Accounts receivable
 - b. Accounts payables
 - c. Cash on hand
 - d. Fixed expenses
7. A company does not have enough money on hand to meet its current obligations. All of the following may be used to help the company survive *EXCEPT*
 - a. adding an alternative business.
 - b. liquidating assets.
 - c. bringing in investors.
 - d. borrowing money.

8. A brokerage firm requires additional money for expanding its business, but is *NOT* in a position to take out more loans. In this situation, the firm may consider
 - a. debt financing.
 - b. selling assets.
 - c. equity financing.
 - d. taking the firm public.

9. A broker is starting her own company. When estimating her cash flow for starting up, she should plan to be dependent on start-up capital for
 - a. 3 months.
 - b. 6 months.
 - c. 12 months.
 - d. 24 months.

10. A broker who is starting her own firm could plan on breaking even within
 - a. 6 months.
 - b. 12 months.
 - c. 3 to 5 years.
 - d. 5 to 7 years.

11. When the broker approaches a lender for a loan, the application portfolio normally includes a letter of introduction, a personal financial statement, a budget, and
 - a. the company's logo.
 - b. a floor plan of the office.
 - c. evidence of franchise membership.
 - d. a business plan.

12. Which financial document can serve the same purpose as a business plan?
 - a. Balance sheet
 - b. Income and expense report
 - c. Cash flow statement
 - d. Budget

13. When forecasting income for the year, begin by multiplying the average home sale price by the number of anticipated transactions. Then calculate gross sales income by
 - a. multiplying the gross sales volume by the company's commission rate.
 - b. dividing the gross sales volume by the average home sale price.
 - c. dividing the gross sales volume by the number of salespeople.
 - d. multiplying the gross sales volume by the company's commission split.

14. How should a real estate broker determine the commission that the company charges?
 - a. Depends on the state licensing commission
 - b. Current rates set by local MLS
 - c. Sound business rationale
 - d. What other brokers charge

15. What fees are prohibited by the Real Estate Settlement Procedures Act (RESPA)?
- Fees added for the sake of additional income
 - Higher rate of commission
 - Fees for services
 - Contingency and performance fees
16. In a real estate company, the cost of sales is
- listed as income on the profit and loss statement.
 - a fixed expense on the profit and loss statement.
 - the same as company dollar.
 - all of the transaction expenses.
17. What is the name of the account for saving money for a rainy day?
- Depreciated replacements
 - Reserve account
 - Anticipated net income
 - Fringe benefits
18. The process of developing a budget is nearly as important as the final document because it allows management to
- review its projections.
 - rely on past experiences.
 - shift more costs to its sales force.
 - avoid making any company changes.
19. A work unit charged with the responsibility for generating a portion of the net income in the general operating budget is known as
- a profit center.
 - a sales office.
 - a variable budget.
 - company dollar.
20. What *MOST* influences the accounting procedures for escrow accounts?
- Company's auditor
 - Computer software program
 - Licensing law of the state
 - Company's broker

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1. d The financials are statements that provide a picture of an organization's fiscal condition and consist of the balance sheet, income statement, and cash flow statement. 208
2. b A balance sheet reports the organization's assets, liabilities, and owner equity and provides a snapshot of the organization's general financial position as of the date that it is prepared. 208
3. a The cash method reports entries in the period they were paid, and the accrual method reports entries in the period in which they occurred. The company accountant can assist in determining which method is better for the organization. 209
4. d Cost of sales is an expense. Income is derived from brokerage fees, additional services fees, and transaction fees. Depreciation is any decrease in value of an asset during a period of time, thus affecting the value of the business. 210
5. b The cash flow statement reports receipts and disbursements, which allows the company to know how much cash (money) it has to work with for day-to-day operations. 211
6. c Cash on hand is the liquid asset that fuels a company's operations as opposed to assets shown on the balance sheet that would have to be traded or liquidated for cash. The greater the cash, the more agile a company can be, thus enabling it to weather downturns in the economy. 211
7. a Cash requirements can be satisfied by liquidating assets or going outside the organization to borrow money or find investors. Each of these alternatives can take time to arrange, cost money, and have lingering consequences that have to be weighed (including possible legal ramifications). 212
8. c The firm can find investors to bring in additional cash for the expansion, as an alternative to borrowing money (debt financing). Although this dilutes ownership interests, the additional cash and expertise may be the prudent method for expansion. 212
9. b A good rule of thumb for estimating the amount of money set aside for operating expenses, especially in the first year, is six months. The first year is the most treacherous, though a company should expect to be totally capital-dependent for at least the first six months. 214
10. c For start-up companies, a three-to-five-year span to the break-even point is a typical projection. In the meantime, companies have to withstand operating losses and may also have to make additional capital expenditures to be competitive. 214
11. d A business plan should be included in any loan application portfolio, as well as a letter of introduction, a personal financial statement, and a budget. 217
12. d General operating budgets serve the same purpose as business plans, that is, they provide a financial road map to keep the organization on track. Budgets are useful if they are realistic in their projections. 218
13. a To calculate gross income, multiply the gross sales volume by the company's commission rate. 219-221
14. c The broker or owner of the company must decide what to charge consumers based on the cost of providing services, not what other brokers charge. Neither the state licensing commission nor the local MLS may determine rates. 221
15. a Fees added simply to increase income are prohibited by RESPA. Any fee charged by the brokerage must provide a demonstrable benefit. 222
16. d The cost of sales includes all the service costs made to assist a transaction to settlement. For most offices, this is one of the largest expenses. 223
17. b The reserve account puts aside money to cover unexpected expenses or to capture

opportunities that present themselves. 225

18. a The process of developing a budget is as important as the final product because it forces management to consider and reconsider its projections on income and expenses, allowing the company to make changes if necessary. 225
19. a A profit center is created when a work unit is charged with the responsibility for generating a portion of the net income in the general operating budget. 226
20. c The state license laws most influence the accounting procedures for escrow accounts. 228