Entrance examination for Master of Business Administration Program

Part 1: READING COMPREHENSION

13 QUESTIONS: 30 MINUTES

Below each of the following passages you'll find questions or incomplete statements about the passage. Select the ONE option (A, B, C, D or E) that most satisfactorily completes each statement or answers each question in accordance with the meaning of the passage.

CPA Pleads Guilty in Accounting Fraud Scheme

A partner at a New York CPA firm has pleaded guilty to participating in a multimillion-dollar accounting fraud scheme. Marc Wieselthier, 57, a shareholder of Curcio, Wieselthier & Cohen CPAs, pleaded guilty Wednesday to participating in a scheme to obtain millions of dollars in loans by making false statements and providing false and fraudulent documents to two unidentified commercial banks in New York concerning the financial condition of an unidentified Florida-based cosmetics company that was one of Wieselthier's clients.

Wieselthier, a licensed CPA in Plainview, N.Y., has been a partner at the firm since 2009. The cosmetics company and its CEO were clients of Wieselthier, who performed, among other things, year-end audits of financial statements for the company.

According to prosecutors, from 2007 through 2014, the cosmetics company's executives persuaded the banks to lend them millions of dollars by repeatedly making false and misleading statements about their company's financial condition. The company inflated its sales and accounts receivable on "borrowing base certificates" and in financial statements audited by Wieselthier, which were provided to the banks according to loan agreements between the banks and the company. The company used the falsely inflated sales and accounts receivable to mislead the banks about the company's true financial performance so the company could secure and draw down millions of dollars in revolving loans from the banks that the company would not otherwise have been entitled to receive.

As part of the scheme, Wieselthier issued unqualified audit reports on an annual basis falsely certifying that the company's financial statements fairly, and in all material respects, reflected the true financial condition of the company and were in conformity with U.S. GAAP. At the time he issued those "clean opinions," he allegedly knew the company's financial statements falsely overstated accounts receivable and understood that the banks would rely upon those false financial statements in loaning money to the company.

Prosecutors contend Wieselthier hid his accounting work for the company from his own partners and associates in an effort to conceal the fraud. In March 2014, the company defaulted on the loans. At the time, the company's outstanding balance on the loans was more than $4.8 million.

Wieselthier pled guilty to one count of conspiracy to commit bank fraud, which carries up to 30 years in prison. He is scheduled to be sentenced in March.

"Marc Wieselthier has admitted to lying about the financial condition of a company to induce banks to lend the company millions of dollars," said Manhattan U.S. Attorney Preet Bharara in a statement. "Relying on false information, the banks made

loans that ended up defaulting with nearly $5 million still owed. Wieselthier now joins his co-conspirators in awaiting sentencing for his crime."

Emanuel Cohen, 71, of Boca Raton, Fla., the former CEO of the company, and Thomas Thompson, 42, of Coral Springs, Fla., the former sales manager of the company, previously pled guilty for their roles in the scheme. They are scheduled to be sentenced in March and February, respectively.

Adapted from http://www.accountingtoday.com/news/cpa-pleads-guilty-in-accounting-fraud-scheme

1. It can be gathered from the text that Wieselthier
   (A) is a shareholder in the Florida-based cosmetics company.
   (B) audited the company's accounts.
   (C) is a partner at the Florida-based company.
   (D) tried to obtain loans from the company.
   (E) provided veritable documents to the banks.

2. The prosecution believes that the company
   (A) understated its accounts payable.
   (B) inflated its accounts payable.
   (C) misled the prosecution about the company's financial standing.
   (D) overstated its sales revenue.
   (E) showed true and fair picture of the company's financial standing.

3. In paragraph five, the unqualified opinion
   (A) is equated in meaning with a clean opinion.
   (B) is not the same as an unqualified opinion.
   (C) was issued in accordance with U.S. GAAP.
   (D) can be alleged to have been grounded in fact.
   (E) is an issued statement.

4. In the bolded sentence, the $4.8 million
   (A) is the amount owed banks by the Florida-based company.
   (B) is the amount due from Wieselthier's partnership.
   (C) is the amount to be repaid by Wieselthier.
   (D) none of the above.
   (E) is the amount Wieselthier has already repaid.

5. The text implies that
   (A) Wieselthier falsified financial data to secure personal loans.
   (B) Wieselthier cooked the cosmetics' company's books to assist its management in securing bank loans.
   (C) Wieselthier's interest in the accounting scheme was a one-off (i.e. one time) incident.
   (D) Wieselthier acted in the scheme with the consent of his partners.
   (E) Wieselthier had no knowledge about the illicit character of his operations.

6. Emanuel Cohen and Thomas Thomson
   (A) denied responsibility for their crime.
   (B) were declared to be not guilty by the court.
   (C) are of the same age.
   (D) will receive their sentences at the same time.
   (E) will receive their sentence at different times.

Bank loans

Bank loans are available to finance the purchase of inventory and equipment as well as to obtain operating capital and funds for business expansion. These loans are a time-honored and reliable method of financing a small business, but banks often only finance firms with substantial collateral and a long track record, and the terms they offer are often very strict. Business owners should weigh the advantages and disadvantages of bank loans against other means of finance.

A bank loans money to a business based on the value of the business and its perceived ability to service the loan by making payments on time and in full. Banks do not take any ownership position in businesses. Bank personnel also do not get involved in any aspect of running a business to which a bank grants a loan. Once a business borrower has paid off a loan, there is no more obligation to or involvement with the bank lender unless the borrower wishes to take out a subsequent loan.

The interest on business bank loans is tax-deductible. In addition, especially with fixed-rate loans, in which the interest rate does not change during the course of a loan, loan servicing payments remain the same throughout the life of the loan. This makes it easy for businesses to budget and plan for monthly loan payments. Even if the loan is an adjustable-rate loan, business owners can use a simple spreadsheet to compute future payments in the event of a change in rates.

One of the greatest disadvantages to bank loans is that they are very difficult to obtain unless a small business has a substantial track record or valuable collateral such as real estate. Banks are careful to lend only to businesses that can clearly repay their loans, and they also make sure that they are able to cover losses in the event of default. Business borrowers can be required to provide personal guarantees, which means the borrower's personal assets can be seized in the event the business fails and is unable to repay all or part of a loan.

Interest rates for small-business loans from banks can be quite high, and the amount of bank funding for which a business qualifies is often not sufficient to completely meet its needs. The high interest rate for the funding a business does receive often stunts its expansion, because the business needs to not only service the loan but also deal with additional funding to cover funds not provided by the bank. Loans guaranteed by the U.S. Small Business Administration offer better terms than other loans, but the requirements to qualify for these subsidized bank loans are very strict.

Lenders who offer unsecured business loans won't require your business to pledge any collateral to obtain the loan. However, you must still meet income and credit requirements. Unsecured business loans can range from $5,000 to more than $500,000, depending on the size of the business and its credit rating. Some lenders may also offer businesses a revolving line of unsecured credit.

7. Bank loans
   (A) are given by banks honored to finance small business.
   (B) are likely to be offered when they are well secured.
   (C) are the only means of financing.
   (D) were invented to expand business.
   (E) are spent on purchasing fixed assets by the companies.

8. Banks
   (A) grant loans to businesses which pledge to repay the debt on time.
   (B) lend money for a stake in a business.

(C) wish their borrowers maintain long-term relationship.
(D) expect their borrowers to repay a loan once.
(E) are happy with a partial repayment of the loan.

9. The interest on the loans
(A) is always fixed.
(B) can be written off taxes.
(C) depends on the life of the borrower.
(D) is computed by the customers.
(E) is always negotiable.

10. Bank customers who own small businesses and wish to borrow money
(A) are offered low rates.
(B) need to have assets to pledge.
(C) do not need to give personal guarantees.
(D) often fail to repay the loan.
(E) do not need to have a proven history.

11. Which option is NOT correct?
(A) High interest on loans for small businesses may harm their growth.
(B) The funding provided by the bank may not be sufficient to operate.
(C) US Small Business Administration is very permissive to borrowers.
(D) Borrowers can obtain financing for their businesses without a collateral.
(E) Small business firms can expect low interest.

12. Lenders offering loans
(A) are prepared to lend without asking for any security.
(B) expect the borrowers to demonstrate creditworthiness.
(C) give the same amount of loans to everyone.
(D) do not consider the track record of the borrower.
(E) require security for all the loans.

Understanding hedge funds

Hedge funds are private investment funds which are only open to a limited range of investors, the number of which is determined by its regulators, but is restricted by law to no more than 100 investors per fund. They are special in that they are exempt from many of the rules and regulations governing other mutual funds, and this allows them to undertake a wider range of trading activities and employ more aggressive strategies than are normally permitted. As a consequence of the restricted number of investors, most hedge funds set an extremely high minimum investment amount, ranging from $250,000 to as much as $1 million. Investors also have to pay an annual performance fee to the Investment Manager, as is standard practice for mutual funds; however hedge funds also collect a percentage of the profits (usually 20%).

The underlying philosophy of hedge funds which originated on Wall Street in the 1940s as an investment option for the extremely wealthy, is wealth preservation. They operate on the principle of absolute return, of making money on an ongoing basis, regardless of market fluctuations. This is an attractive proposition for investors and hedge fund activity has increased greatly over the last 15 years.

No longer the exclusive territory of individual investors, some hedge funds now also offer their investment capabilities to professional investors such as insurance companies and pension funds. At the same time, the range of different investment strategies, some of them high risk, that hedge fund managers typically employ to achieve

their aggressive investment goals have become more widely practised in the financial markets. Notably, these include extensive dealing in derivatives, short selling or 'selling short' and leveraging.

Short selling was one of the strategies employed by billionaire businessman and hedge fund manager George Soros which generated an estimated $1.1 billion for his hedge fund, the 'Quantum Fund', in 1992, forcing the pound out of the European exchange mechanism in the process. It is a technique for profiting from the falling price of stock and involves borrowing a security from a broker and selling it with the understanding that it must later be bought back (hopefully when the market has dropped and at a lower price) and returned to the broker.

For example, a hedge fund manager will task the fund's brokers to borrow a certain number of shares of company or companies, which they believe are overpriced and will fall. The Fund Manager will then immediately sell the borrowed shares at the current market price. If the price of the shares drops, the Fund Manager buys back the shares and the brokers return them to the lender. The profit is the difference between the price at which the stock was sold and the cost to buy it back, minus commissions and expenses for borrowing the stock. It is an effective technique for getting a positive return in a falling market but can be high risk; if the prices increase rather than decrease, the potential losses are unlimited.

Derivatives are another means employed by fund managers to 'hedge their bets' against market direction. They are essentially contracts that gamble on the future prices of assets by making a contract for future trading at a specified price, the buyer and seller standing to gain or lose according to whether the market has dropped below the price agreed or risen above it. 'Options' and 'futures' are common currency in derivatives trading. A 'future', or forward contract, is formed when both the buyer and the seller are committed and legally obliged to exchange the asset when the contract matures. An 'option', on the other hand, is a contract that gives its owner the right, but not the obligation, to buy or sell the asset on or before a given date at the agreed-upon price. Leveraging, that is borrowing money to increase the fund's trading capacity, is also common practice for hedge funds. There are obvious associated risks; however, leveraging can increase the shareholders' return on their investment and often there are additional tax advantages associated with borrowing.

So, are hedge funds a sure-fire way to maximum returns on investment? According to HedgeFund Intelligence, the industry information group, the average return on European hedge funds can be as little as less than 10%; this compares unfavourably with the return of 18.1% posted by ordinary European equity funds. However, hedge funds fared much better in the bear markets of, for example, 2001, 2002 and 2008. While the stock market was down 45% in the first two periods mentioned, hedge funds were up by between 1% and 2%. Because hedge funds aim for absolute returns, they tend to perform better than the stock market in bad times, such as periods of economic recession, but less well in good times.

13. Why does the minimum investment for a hedge fund tend to be high?

(A) They are an investment mechanism only for the very wealthy.
(B) The amount is determined by the fund's regulators.
(C) This includes the Fund Manager's fee.
(D) The number of investors is restricted.
(E) They are governed by regulations.

14. According to paragraph one, what is the principal characteristic that distinguishes hedge funds from other types of mutual fund?

(A) Investors have to pay the Fund Manager an annual performance fee.
(B) Hedge funds are less regulated and can engage in a broader range of trading activities.
(C) There is a minimum investment amount.
(D) Hedge funds tend to employ a less aggressive investment strategy.
(E) Mutual funds do not require a fee payment.

15. According to paragraph two, what does the principle of 'absolute return' entail?

(A) Maximizing profit.
(B) Setting the losses off against the profits as the market fluctuates.
(C) Always making a profit whether the markets move up or down.
(D) Accepting heavy losses for the sake of even more substantial future gains.
(E) Avoiding losses at all cost.

16. What does the technique of short selling depend on in order to make a profit?

(A) The fund's borrowed securities have to increase in value before the fund sells them on.
(B) The fund's borrowed securities have to fall in value before the fund buys them back.
(C) The fund must only buy securities that have fallen in value.
(D) The fund has to sell securities as soon as they rise in value.
(E) The fund keeps the shares until they rise in value.

17. How do hedge funds acquire security or shares they intend to sell short?

(A) They buy them directly from a broker.
(B) They buy shares without using the intermediary of a broker.
(C) They instruct a broker to borrow shares on behalf of the fund.
(D) They place bets and buy shares they believe are overpriced directly from companies.
(E) They auction the shares in the market.

18. What is the main difference between futures and options?

(A) Whether or not the contract is for a limited amount of time.
(B) Whether or not the contract is binding.
(C) Whether or not there is an obligation to sell or buy when the contract comes to term.
(D) Whether or not it is possible to sell the contract.
(E) Whether or not the contract is voluntary.

Answers

KEY: 1 (B) 2 (D) 3 (A) 4 (A) 5 (B) 6 (E)
KEY: 7 (B) 8 (A) 9 (B) 10 (B) 11 (C) 12 (B)
KEY: 13 (D) 14 (B) 15 (C) 16 (B) 17 (C) 18 (C)

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Part 2: PROBLEM SOLVING

Solve the problem and indicate the best of the answer choices given.

1. Andrew started saving at the beginning of the year and had saved $240 by the end of the year. He continued to save and by the end of 2 years had saved a total of $540. Which of the following is closest to the percent increase in the amount Andrew saved during the second year compared to the amount he saved during the first year?

(A) 11%
(B) 25%
(C) 44%
(D) 56%
(E) 125%

2. If $x > y$ and $y > z$, which of the following represents the greatest number?

(A) $x - z$
(B) $x - y$
(C) $y - x$
(D) $z - y$
(E) $z - x$

3. Salesperson A's compensation for any week is $360 plus 6 percent of the portion of A's total sales above $1,000 for that week. Salesperson B's compensation for any week is 8 percent of B's total sales for that week. For what amount of total weekly sales would both salespeople earn the same compensation?

(A) $21,000
(B) $18,000
(C) $15,000
(D) $4,500
(E) $4,000

4. There are 5 cars to be displayed in 5 parking spaces, with all the cars facing the same direction. Of the 5 cars, 3 are red, 1 is blue, and 1 is yellow. If the cars are identical except for color, how many different display arrangements of the 5 cars are possible?

(A) 20
(B) 25
(C) 40
(D) 60
(E) 125

5. The organizers of a fair projected a 25 percent increase in attendance this year over that of last year, but attendance this year actually decreased by 20 percent. What percent of the projected attendance was the actual attendance?

(A) 45%
(B) 56%

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(C) 64%
(D) 75%
(E) 80%

6. If a and b are positive integers and $(2^a)^b = 2^3$, what is the value of $2^a\ 2^b$?
(A) 6
(B) 8
(C) 16
(D) 32
(E) 64

7. If Mario was 32 years old 8 years ago, how old was he *x* years ago?
(A) $x - 40$
(B) $x - 24$
(C) $40 - x$
(D) $24 - x$
(E) $24 + x$

8. If the average (arithmetic mean) of *x*, *y*, and *z* is $7x$ and $x \neq 0$, what is the ratio of *x* to the sum of *y* and *z*?
(A) 1:21
(B) 1:20
(C) 1:6
(D) 6:1
(E) 20:1

9. $\sqrt{16 + 16}$ =
(A) $4\sqrt{2}$
(B) $8\sqrt{2}$
(C) $16\sqrt{2}$
(D) 8
(E) 16

10. Of the following, which is least?

(A) $\frac{0.03}{0.00071}$

(B) $\frac{0.03}{0.0071}$

(C) $\frac{0.03}{0.071}$

(D) $\frac{0.03}{0.71}$

(E) $\frac{0.03}{7.1}$

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KEY: 1(B) 2(A) 3(C) 4(A) 5(C) 6(C) 7(C) 8(B) 9(A) 10(E)

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Part 3: DATA SUFFICIENCY

Each data sufficiency problem consists of a question and two statements (1) and (2), which contain certain data. Using these data and your knowledge of mathematics and everyday facts (such as the number of days in July or the meaning of the word *counterclockwise*), decide whether the data given are sufficient for answering the question and then indicate one of the following answer choices:

(A) Statement (1) ALONE is sufficient, but statement (2) alone is not sufficient.
(B) Statement (2) ALONE is sufficient, but statement (1) alone is not sufficient.
(C) BOTH statements TOGETHER are sufficient, but NEITHER statement ALONE is sufficient.
(D) EACH statement ALONE is sufficient.
(E) Statements (1) and (2) TOGETHER are not sufficient.

NOTE: In data sufficiency problems that ask for the value of a quantity, the data given in the statements are sufficient only when it is possible to determine exactly one numerical value for the quantity.

1. A certain list consists of 400 different numbers. Is the average (arithmetic mean) of the numbers in the list greater than the median of the numbers in the list?
   (1) Of the numbers in the list, 280 are less than the average.
   (2) Of the numbers in the list, 30 percent are greater than or equal to the average.

2. If a, b, c and d are numbers on the number line shown and if the tick markers are equally spaced , what is the value of $a + c$?
   (1) $a + b = -8$
   (2) $a + d = 0$

3. Last year in a group of 30 businesses, 21 reported a net profit and 15 had investments in foreign markets. How many of the businesses did not report a net profit nor invest in foreign markets last year?
   (1) Last year 12 of the 30 businesses reported a net profit and had investments in foreign markets
   (2) Last year 24 of the 30 businesses reported a net profit and had investments in foreign markets, or both.

4. Is zw positive?
   (1) $z + w^3 = 20$
   (2) z is positive

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5. A collection of 36 cards consists of 4 sets of 9 cards each. The 9 cards in each set are numbered 1 through 9. If one card has been removed from the collection, what is the number on that card?

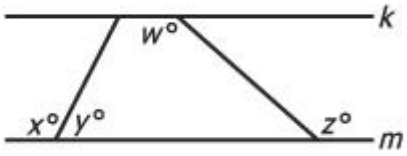
(1) The units digit of the sum of the numbers on the remaining 35 cards is 6.

(2) The sum of the numbers on the remaining 35 cards is 176.

6. Is the figure shown, lines *k* and *m* are parallel to each other. Is $x = z$?

(1) $x = w$

(2) $x = 180 - w$



7. If $x > 0$, what is the value of x^5?

(1) $\sqrt{x}=32$

(2) $x^2 = 2^{20}$

8. Is $xy > 5$?

(1) $1 \leq x \leq 3$ and $2 \leq y \leq 4$

(2) $x + y = 5$

9. During a certain bicycle ride, was Sherry's average speed faster than 24 km/h?
(1 km = 1000 meters)

(1) Sherry's average speed during the bicycle ride was faster than 7 meters per second.

(2) Sherry's average speed during the bicycle ride was slower than 8 meters per second.

10. Is the integer *n* a prime number?

(1) $24 \leq n \leq 28$

(2) *n* is not divisible by 2 or 3

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KEY: 1(D) 2(C) 3(D) 4(E) 5(D) 6(D) 7(D) 8(E) 9(A) 10(A)

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