

# 2023–24 Competitive Events Guidelines



## Foundations of Finance

Foundations of Finance provides members with the opportunity to demonstrate knowledge around competencies in finance. This competitive event consists of an objective test.

### Event Overview

**Division:** Collegiate

**Event Type:** Individual

**Event Category:** Objective Test, 100-multiple choice questions (breakdown of question by competencies below)

**Objective Test Time:** 50 minutes

**NACE Connections:** Career & Self-Development

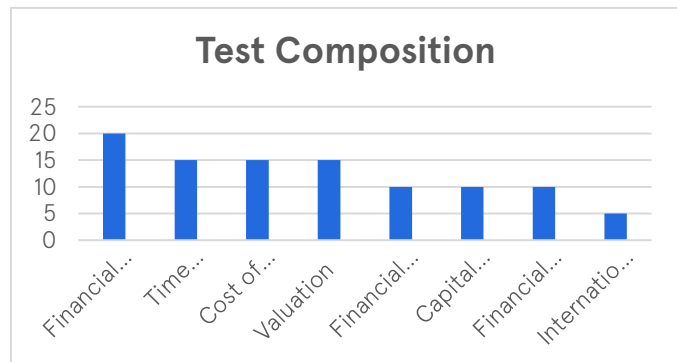
**Equipment Competitor Must Provide:** Pencil, Computer

**Equipment FBLA Provides:** One piece of scratch paper per competitor

*Only for members who have had no more than six credit hours on a semester schedule, or the equivalent of quarter hours, of finance instruction at the collegiate level by May 1 of the current year.*

### Competencies

- Financial instruments and institutions
- Time value of money
- Cost of capital and capital budgeting
- Valuation and rates of return
- Financial analysis
- Capital investment decisions
- Financial risks and returns
- International finance



### State

Check with your State Leader for state-specific competition information.

### National

#### Policy and Procedures Manual

- Competitors should be familiar with the Competitive Events Policy & Procedures Manual, found on the Competitive Events page on [www.fbla.org](http://www.fbla.org).

#### Eligibility

- FBLA membership dues are paid by 11:59 pm Eastern Time on April 15<sup>th</sup> of the current program year.
- Members must be registered for the NLC and pay the national conference registration fee in order to participate in competitive events.
- Members must stay in an official FBLA hotel to be eligible to compete.
- Each state may submit four entries per event.

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- Each member can compete in up to two individual/team events and one chapter event (Community Service Project or State of Chapter Presentation).
- If competitors are late for an objective test, they will be allowed to compete until such time that results are finalized, or the accommodation would impact the fairness and integrity of the event. Competitive event schedules cannot be changed. Competitive events start in the morning before the Opening Session of the NLC.
- Picture identification (physical or digital driver's license, passport, state-issued identification, or school-issued identification) is required when checking in for competitive events.

### *Recognition*

- The number of competitors will determine the number of winners. The maximum number of winners for each competitive event is 10.

### *Event Administration*

- This event is an objective test administered online at the NLC.
- No reference or study materials may be brought to the testing site.
- No calculators may be brought into the testing site; online calculators will be provided through the testing software.

### *Tie Breaker*

- Ties are broken by comparing the correct number of answers to 10 pre-determined questions on the test. If a tie remains, answers to 20 pre-determined questions on the test will be reviewed to determine the winner. If a tie remains, the competitor who completed the test in a shorter amount of time will place higher.

### *Americans with Disabilities Act (ADA)*

- FBLA meets the criteria specified in the Americans with Disabilities Act for all competitors with accommodations submitted through the conference registration system by the registration deadline.

### *Penalty Points*

- Competitors may be disqualified if they violate the Competitive Event Guidelines or the Honor Code.
- Five points are deducted if competitors do not follow the Dress Code or are late to the testing site.

### *Electronic Devices*

- All electronic devices such as cell phones and smart watches must be turned off before competition begins.

### Study Guide: Competencies and Tasks

#### A. Financial Instruments and Institutions

1. Describe the standard and unique features of the following securities: bills, notes, bonds, zeros, and municipal bonds.
2. Demonstrate an understanding of negotiable instruments and identify the terms of negotiability.
3. Define the concept of the money supply.
4. Identify the functions of the Federal Reserve.
5. Justify the existence of money in the economy.
6. Identify the types of short-term bank loans.
7. Describe the process of accounts receivable financing.
8. Characterize the limitations of intermediate-term bank loans.
9. Explain and give examples of long-term debt financing.
10. Describe the process of investment banking.
11. Obtain business credit and control its use.
12. Explain forms of financial exchange (e.g., cash, credit debit, electronic funds, and transfer).
13. Identify types of currency (e.g., paper money, coins, banknotes, government bonds, and treasury notes).
14. Describe functions of money (e.g., medium of exchange, unit of measure, and store of value).
15. Examine the structure and operation of the banking system in the United States.
16. Explain the role of central banks.
17. Explain financial services companies.
18. Discuss the role of credit unions.
19. Explain the role of savings and loan associations.
20. Discuss the role of the World Bank Group in international financial assistance.

#### B. Time Value of Money

1. Explain the following concepts: present and future value of money, annuity, lump sum, effective interest rates, APR, annuity due, amortizing loans, and perpetuity.
2. Utilize the time value of money concepts.
3. Assess the time value of money concepts in decision making.
4. Discuss the time value of money and implications thereof to risk, rates of return, and value.
5. Perform various types of time value of money calculations.
6. Apply the time value concept of financial decision situations.
7. Discuss the conflicts between the Net present value and the Internal Rate of Return and how to resolve these conflicts.

#### C. Cost of Capital and Capital Budgeting

1. Explain the significance of a firm's capital structure.
2. Discuss the theory of capital structure.
3. Describe the financial needs of a business at different stages of its development.

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4. Compare and contrast the various financing opportunities (both debt and equity) organizations have available for making decisions to fund operations and capital expenditures.
  5. Discuss factors to consider in choosing between debt and equity capital.
  6. Analyze and control cash flow.
  7. Implement capital budgeting techniques in making capital expenditure decisions.
  8. Engage in certain capital budgeting procedures including payback, discounted payback, net present value, and internal rate of return.
  9. Discuss the general concepts of capital budgeting.
  10. Describe the process of evaluating capital budgeting projects.
  11. Tie the capital budgeting decision to the overall goal of shareholder wealth maximization.
  12. Describe how the cost of capital plays a role in various decisions made by financial managers.
  13. List the factors that determine the cost of capital.
  14. Compute the cost of debt, preferred and common stock capital and put them together to develop the overall cost of capital for the firm.
  15. Define the role of tax laws in computing cost of capital.
  16. Identify and calculate component costs of capital and the weighted average cost of capital.
  17. Compute the operating, financial combined leverage and provide the implications for decision making.
- D. Valuation and Rates of Return
1. Describe security valuation and rate of return.
  2. Define and measure the risk and rates of return through the capital asset pricing model.
  3. Use certain stock and bond valuation models.
  4. Describe the basic process used to value bonds, find their yield to maturity, and yield to call.
  5. Describe the relationship that exists in bond valuation and its implication for investors.
  6. Calculate the expected and required rate of return for stocks.
  7. Review concepts of valuation for entrepreneurial ventures and possible funding sources for them.
  8. Explain the calculation of the Capital Asset Pricing Model (CAPM) and integrate the results in the valuation of a company's stock.
- E. Financial Analysis
1. Identify the role and functions of finance, tools for financial planning and analysis.
  2. Utilize the basic tools of finance in analyzing a company to provide solutions for identified problems.
  3. Distinguish between operating cash flows and counting income.
  4. Prepare a statement of cash flows.
  5. Perform financial analysis using financial ratios, DuPont analysis, common size statements, and financial forecasting.

6. Analyze and interpret financial ratios relative to liquidity, asset management, debt management, profitability, and market value.
  7. Differentiate between horizontal and vertical analysis.
  8. Explain and give examples of solvency and debt service ratios.
  9. Explain the DuPont system.
  10. Explain the concepts of financial forecasting.
  11. Calculate and discuss break-even analysis.
  12. Discuss and give examples of leverage.
  13. Detail the use of operating leverage.
- F. Capital Investment Decisions
1. Evaluate the effect of credit markets on a company's ability to finance its operations.
  2. Discuss the effect of currency fluctuations as they impact a company's finances and investment rating.
  3. Discuss types of investment and planning horizons.
  4. Consider the challenges of managing and funding growth.
  5. Describe the difference between the funder's perspectives and those of the company being financed.
  6. Appreciate the difference between venture capital, private equity, early stage, and traditional financing sources.
  7. Allocate a limited budget to capital investment projects.
  8. Discuss how to incorporate risk in capital investment decisions.
  9. Explain the nature of capital investment.
- G. Financial Risks and Returns
1. Define market risk and diversifiable risk.
  2. Discuss the relation between risk and return and its implication for investors.
  3. Determine the breakeven point and name the assumptions and implications.
  4. Explain and list various types of risk.
  5. Discuss and define return.
  6. Explain the concept of risk-return trade-off.
  7. Explain the nature of risk management.
  8. Explain the role of ethics in risk management.
  9. Develop and evaluate a risk management program.
  10. Discuss the nature of risk control (e.g., internal and external).
  11. Explain ways to assess risk.
- H. International Finance
1. Identify the issues to consider when investing in foreign money market securities.
  2. Describe how and why exchange rates move.
  3. Evaluate the impact of capital inflows and capital outflows.
  4. State pros and cons of the International Monetary Fund.
  5. Examine strategies for considering international growth.
  6. Explain the use of trade credit.