

BPA Contest 145 Banking and Finance Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. Which act established the minimum wage?**
 - A. National Labor Relations Act**
 - B. Fair Labor Standards Act**
 - C. Occupational Safety and Health Act**
 - D. Employee Retirement Income Security Act**
- 2. What is the primary purpose of a credit report?**
 - A. To assess an individual's creditworthiness**
 - B. To provide tax information**
 - C. To summarize bank account activity**
 - D. To track investment performance**
- 3. What is the purpose of an emergency fund?**
 - A. To invest in stocks**
 - B. To buy luxury items**
 - C. To cover unexpected expenses**
 - D. To fund retirement plans**
- 4. Who is responsible for paying Medicare tax?**
 - A. Only the employer**
 - B. Only the employee**
 - C. Employer and employee**
 - D. Self-employed individuals only**
- 5. What does 'asset allocation' involve?**
 - A. Maximizing income through stock trading**
 - B. Dividing investments among various asset categories**
 - C. Creating a business plan for a startup**
 - D. Determining the risk level of individual stocks**
- 6. True or False: Return on equity is calculated by dividing net income by total assets.**
 - A. True**
 - B. False**
 - C. Only for publicly traded companies**
 - D. Depends on the financial analysis method**

- 7. What is the primary function of a regular savings account?**
- A. To offer a high return on investment**
 - B. To provide immediate access to funds**
 - C. To serve as a long-term investment**
 - D. To accumulate interest with low risk**
- 8. What is garnishment?**
- A. A method to increase savings**
 - B. A legal process for collecting a debt**
 - C. An insurance policy for loans**
 - D. A way to secure investments**
- 9. What is the best payment option often recommended for life insurance?**
- A. Monthly**
 - B. Quarterly**
 - C. Annually**
 - D. Every few years**
- 10. Which of the following statements is true about a financial statement?**
- A. It includes only cash transactions**
 - B. It provides a summary of financial performance**
 - C. It reflects future earnings projections**
 - D. It is only necessary for large corporations**

Answers

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1. B
2. A
3. C
4. C
5. B
6. B
7. D
8. B
9. C
10. B

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Explanations

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1. Which act established the minimum wage?

- A. National Labor Relations Act
- B. Fair Labor Standards Act**
- C. Occupational Safety and Health Act
- D. Employee Retirement Income Security Act

The Fair Labor Standards Act is the legislation that established the minimum wage in the United States. Enacted in 1938, this act aimed to protect workers from unfair labor practices and ensures that employees are compensated with a baseline income for their work, making it a crucial piece of labor legislation. The act not only set the standard for minimum wage but also regulated overtime pay, youth employment, and other aspects of labor standards. This was significant in promoting fair labor practices and lifting the standard of living for many workers across the country. The other acts listed address different aspects of labor and employment rights. The National Labor Relations Act focuses on the rights of employees and employers to engage in collective bargaining and to protect the rights of unionization. The Occupational Safety and Health Act aims to ensure safe and healthful working conditions by setting and enforcing standards. The Employee Retirement Income Security Act sets standards for pension and health plans to protect the interests of employee benefits. Each serves its purpose, but none are specifically designed to establish a minimum wage like the Fair Labor Standards Act does.

2. What is the primary purpose of a credit report?

- A. To assess an individual's creditworthiness**
- B. To provide tax information
- C. To summarize bank account activity
- D. To track investment performance

The primary purpose of a credit report is to assess an individual's creditworthiness. A credit report contains detailed information about a person's credit history, including their borrowing patterns, repayment history, outstanding debts, and public records like bankruptcies. Lenders and financial institutions use this information to evaluate the risk of lending money or extending credit. A positive credit report, reflecting timely payments and responsible credit use, indicates that an individual is likely to repay new debts, making them a more attractive candidate for loans or credit cards. In contrast, tax information pertains to an individual's income, deductions, and tax liabilities, which are not relevant to assessing creditworthiness. Summarizing bank account activity focuses on transactions within bank accounts and does not provide insight into credit behavior. Tracking investment performance relates to monitoring the returns or losses on investments and, again, is not connected to credit assessments. Therefore, the function of the credit report is distinct and crucially tied to lending decisions.

3. What is the purpose of an emergency fund?

- A. To invest in stocks**
- B. To buy luxury items**
- C. To cover unexpected expenses**
- D. To fund retirement plans**

The purpose of an emergency fund is to cover unexpected expenses. This financial safety net is designed to provide immediate resources for unplanned and often urgent financial needs, such as medical emergencies, car repairs, or sudden job loss. An emergency fund allows individuals to avoid going into debt when these situations arise, thus providing peace of mind and financial stability. Maintaining an emergency fund typically entails setting aside three to six months' worth of living expenses, which can help ensure that individuals are prepared for any unforeseen circumstances. Utilizing this fund appropriately can help manage cash flow during difficult times without compromising long-term financial goals or other savings.

4. Who is responsible for paying Medicare tax?

- A. Only the employer**
- B. Only the employee**
- C. Employer and employee**
- D. Self-employed individuals only**

The correct choice indicates that both the employer and the employee share the responsibility for paying Medicare tax. In the United States, Medicare tax is part of the Federal Insurance Contributions Act (FICA), which funds Medicare, the federal health insurance program for individuals aged 65 and older, as well as some younger people with disabilities. Employers are required to withhold Medicare taxes from their employees' wages. At the same time, employers also match this amount, contributing an equal portion to the Medicare tax. This system is designed to ensure that funding for Medicare is collected fairly from both workers and their employers. Self-employed individuals are also subject to Medicare tax, but in their case, they pay both the employee and employer portions on their net earnings, effectively making them responsible for the total contribution. Hence, while it's true that self-employed individuals contribute to Medicare tax, the broader context of shared responsibility between employers and employees remains the primary focus of this question.

5. What does 'asset allocation' involve?

- A. Maximizing income through stock trading
- B. Dividing investments among various asset categories**
- C. Creating a business plan for a startup
- D. Determining the risk level of individual stocks

Asset allocation involves dividing investments among various asset categories, such as stocks, bonds, real estate, and cash. The primary objective is to optimize the balance between risk and return based on an investor's financial goals, risk tolerance, and investment horizon. By diversifying across different asset classes, an investor can mitigate potential losses and enhance the stability of their overall portfolio. This strategic distribution is essential because it helps in managing investment risk; for instance, when one asset class underperforms, another may outperform, thus smoothing out the overall returns of the portfolio. It allows for flexibility and adjusts exposures to align with changing market conditions, helping investors achieve their long-term financial objectives.

6. True or False: Return on equity is calculated by dividing net income by total assets.

- A. True
- B. False**
- C. Only for publicly traded companies
- D. Depends on the financial analysis method

Return on equity (ROE) is a key financial metric that measures a company's profitability relative to the equity held by shareholders. It is calculated specifically by dividing net income by shareholder's equity, not total assets. The formula for ROE is:
$$ROE = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$
 Net income reflects the profits of the company after all expenses have been deducted, while shareholder's equity represents the net assets owned by shareholders. This metric is vital for understanding how effectively a company is using the equity invested by its shareholders to generate profits. The statement in question misidentifies the denominator by implying that total assets, which include both equity and liabilities, are used in this calculation. This confusion leads to the assertion being false. Focusing on other available options: the assertion that ROE is only applicable to publicly traded companies does not capture the broader applicability of this measure, as private companies can also calculate ROE for internal analysis or reporting. The claim that it depends on the financial analysis method is not accurate either; the calculation remains consistent regardless of the method, as long as it follows the standard financial metrics.

7. What is the primary function of a regular savings account?

- A. To offer a high return on investment
- B. To provide immediate access to funds
- C. To serve as a long-term investment
- D. To accumulate interest with low risk**

The primary function of a regular savings account is to accumulate interest with low risk. Savings accounts are designed to help individuals save money while earning interest on their deposits. They typically offer a modest interest rate compared to other investment options, but the advantage lies in their safety and accessibility. The funds in a savings account are usually insured up to a certain limit by regulatory authorities, making them a low-risk option for safeguarding savings. This focus on accumulating interest means that depositors can organically grow their savings over time while still having relatively easy access to their funds when needed. Other options, like providing immediate access to funds, may also apply to savings accounts, but that is not their primary function. On the other hand, a regular savings account is not intended to offer high returns like some investments or to serve as a long-term investment vehicle since higher returns typically come with higher risks and longer-term commitments.

8. What is garnishment?

- A. A method to increase savings
- B. A legal process for collecting a debt**
- C. An insurance policy for loans
- D. A way to secure investments

Garnishment is a legal process that allows creditors to collect debts directly from a debtor's wages or bank accounts. When a debtor fails to pay a monetary obligation, a creditor can obtain a court order that authorizes them to take a portion of the debtor's earnings or funds held in a bank account to satisfy the debt. This process serves as a means for creditors to ensure they receive payment when other collection efforts have failed. For instance, if an individual has an outstanding credit card bill and fails to make payments, the credit card company can file for garnishment. If granted by the court, a portion of the individual's paycheck will be deducted automatically and sent to the creditor until the debt is settled. Other provided options, such as methods to increase savings, insurance policies for loans, and ways to secure investments, do not relate to the legal recovery of debts and therefore do not define garnishment accurately. Understanding garnishment is crucial, as it highlights the legal rights creditors have in managing unpaid debts and the impacts this can have on a debtor's financial situation.

9. What is the best payment option often recommended for life insurance?

- A. Monthly**
- B. Quarterly**
- C. Annually**
- D. Every few years**

The most commonly recommended payment option for life insurance is the annual payment. Choosing to pay premiums annually typically offers several advantages. One of the primary benefits is that it often results in lower overall costs compared to more frequent payment intervals. Insurance companies frequently charge additional fees or higher premiums for monthly or quarterly payments, which can accumulate over time, leading to a higher total expense. Additionally, making an annual payment can simplify financial management. Policyholders don't have to worry about keeping track of payments every month or quarter, reducing the likelihood of missed payments that could jeopardize the policyholder's coverage. Furthermore, paying annually can enhance cash flow management and budget planning, since the policyholder can allocate funds accordingly once a year rather than having to set aside money more frequently. Overall, while some individuals might prefer the flexibility of monthly or quarterly payments, the annual payment option stands out as the most economically sound and practical choice for managing life insurance premiums effectively.

10. Which of the following statements is true about a financial statement?

- A. It includes only cash transactions**
- B. It provides a summary of financial performance**
- C. It reflects future earnings projections**
- D. It is only necessary for large corporations**

The chosen statement highlights that a financial statement provides a summary of financial performance, which accurately captures its fundamental purpose. Financial statements, such as the income statement, balance sheet, and cash flow statement, are designed to convey essential information about an entity's financial status over a specific period. This summary allows stakeholders, including investors, creditors, and management, to assess how well the entity has performed financially, understand its profitability, liquidity, and overall financial health. The other statements do not correctly represent the comprehensive nature of financial statements. While it's true that some financial statements will include cash transactions, they encompass more than just those—such as credit transactions and accrued expenses. Additionally, financial statements are historical records and do not project future earnings; forecasts belong to separate financial documents and analysis. Lastly, financial statements are not limited to large corporations; they are vital for businesses of all sizes, including small businesses and even individuals, to track and report financial performance.