



Competency-Based  
Competitive Events  
\*Written Exam\*

2024 HS ICDC  
Booklet Number \_\_\_\_\_

# Finance Cluster Exam

ACT – Accounting Applications Series Event

BFS – Business Finance Series Event

FCE – Financial Consulting Event

FTDM – Financial Services Team Decision Making Event

**INSTRUCTIONS:** This is a timed, comprehensive exam for the occupational area identified above. Do not open this booklet until instructed to do so by the testing monitor. You will have \_\_\_\_\_ minutes to complete all questions.

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1. If a stock is trading higher than the previous day's close, what color will it likely be on a stock ticker shown on TV?
  - A. White
  - B. Red
  - C. Green
  - D. Blue
2. Carter is usually the last person to leave his office. Occasionally, he forgets to set the security alarm when he leaves. This situation results in risks related to
  - A. product liability.
  - B. conflicts of interest.
  - C. fairness.
  - D. security.
3. Monique's classmates frequently complain about their teacher. If Monique adopts their same attitudes, even though she doesn't really agree with them, she is demonstrating
  - A. status quo bias.
  - B. groupthink.
  - C. critical thinking.
  - D. acceptance.
4. When the unemployment rate is high,
  - A. families have more disposable income.
  - B. employee morale doesn't change.
  - C. the economy's output decreases.
  - D. people have higher purchasing power.
5. The cash payments section of a cash flow statement is best described as the
  - A. money a business has left at the end of the month.
  - B. money a business has at the beginning of the month.
  - C. sources of cash flowing out of a business.
  - D. sources of money flowing into the business.
6. Mya convinces a group of people to invest in her teeth-whitening kit, telling them that she is generating high returns on their investments. Mya uses the money from her new investors to pay her initial investors high returns, while pocketing some of the money for herself. This is an example of
  - A. a Ponzi scheme.
  - B. phishing.
  - C. a boiler room.
  - D. insider trading.
7. Reflecting on what you have learned allows you to
  - A. be true to your core values, beliefs, and attitudes.
  - B. prevent offending or belittling someone else.
  - C. prove to others that you are right and they are wrong.
  - D. avoid asking difficult questions about your beliefs.

8. In the private enterprise system, individuals have the freedom to choose
- A. their own economic goals.
  - B. how much they will be paid.
  - C. which laws to obey.
  - D. which taxes they will pay.
9. If data are considered nonconforming, it most likely means that their values
- A. are missing.
  - B. are complete.
  - C. remain consistent with other values.
  - D. do not require further analysis.
10. Which of the following is an example of a business's legal records:
- A. Customer phone calls
  - B. Intellectual property
  - C. Raw materials inventory
  - D. Fixed asset depreciation
11. Which of the following statements about capital gains tax is true:
- A. It is due only before an investment is sold.
  - B. Short-term gains are taxed at one's regular income tax rate.
  - C. It applies to more than just capital assets.
  - D. Long-term gains are levied on profits held for less than a year.
12. Which of the following is the first step a business should take when developing a budget:
- A. Understanding its goals
  - B. Estimating income
  - C. Determining budget surplus or deficit
  - D. Identifying expenses
13. Which of the following is an external factor that impacts corporate governance structures:
- A. Company code of conduct
  - B. Independent audits
  - C. Segregation of duties
  - D. Change in leadership
14. Variance analysis helps maintain control over a project's expenses by monitoring \_\_\_\_\_ costs versus \_\_\_\_\_ costs.
- A. planned; actual
  - B. planned; past
  - C. actual; past
  - D. fixed; indirect

15. Which of the following scenarios best represents a tariff:
- A. A country limits the number of products foreign nations can sell in its country.
  - B. A country's government determines the prices at which products can be sold.
  - C. A country makes illegal payments in an effort to secure products in return.
  - D. A country places taxes on imported products to increase their selling prices.
16. Insurance companies are different than banks in that insurance companies
- A. are part of a centralized clearing and payment system.
  - B. ensure customers pay regular premiums against certain risks.
  - C. are subject to federal and state oversight.
  - D. accept short-term deposits and make long-term loans.
17. Kofi is currently working on a report that provides an overview of his company's fiscal year. What type of report is Kofi most likely to be preparing?
- A. 10-K
  - B. 8-K
  - C. 20-G
  - D. 10-Q
18. Which of the following statements best represents a technical analysis:
- A. It uses statistical trends gathered from trading activity.
  - B. It uses ratios gathered from data in financial statements.
  - C. It helps analysts to arrive at an intrinsic value for the security.
  - D. It analyzes a security's fundamental attributes rather than looking for patterns.
19. A loan officer would be an example of a career in
- A. insurance.
  - B. accounting.
  - C. corporate finance.
  - D. banking services.
20. In the equity market, investors and traders buy and sell
- A. loans.
  - B. stocks.
  - C. bonds.
  - D. credit.
21. A company's compliance department is designing and implementing controls to protect the company from risks it has identified. What key function is the compliance department performing?
- A. Advisory
  - B. Identification
  - C. Resolution
  - D. Prevention

22. Financial accounting is different than managerial accounting in that financial accounting
- A. looks at the future.
  - B. prepares data for external users.
  - C. determines and measures cost.
  - D. deals with financial statements.
23. Which of the following is typically the most important part of following the chain of command:
- A. Bypassing your boss when they are too busy to help
  - B. Always doing what your manager asks of you
  - C. Waiting to learn about the entire chain of command
  - D. Reporting to the person directly above you
24. Insufficient corporate governance may lead to
- A. increased accountability.
  - B. decreased transparency.
  - C. decreased corruption.
  - D. increased investor confidence.
25. Lean Six Sigma is different than Six Sigma in that Lean Six Sigma
- A. doesn't focus on waste reduction.
  - B. prioritizes defect detection over prevention.
  - C. is not fact-based or data-driven.
  - D. aims to reduce variation and waste.
26. Transcend Industries requires employees to scan their ID badges to access company buildings. This is an example of a \_\_\_\_\_ policy.
- A. discrimination/harassment
  - B. health and safety
  - C. leave
  - D. disciplinary
27. Two different financial institutions merge to become one company, combining their assets and liabilities in the process. This is an example of
- A. bancassurance.
  - B. financing.
  - C. consolidation.
  - D. inflation.
28. Keoni's phone keeps vibrating, which prevents him from listening closely. This is an example of
- A. an environmental distraction.
  - B. active listening.
  - C. an internal distraction.
  - D. paraphrasing.

29. Greenery House uses extra cash to pay off a commercial lawnmower loan ahead of schedule. This is an example of using financial information to
- A. create budgets.
  - B. manage debt.
  - C. increase sales.
  - D. acquire new businesses.
30. When developing each new budget, Brea's Bagels requires managers to demonstrate the need for every expense instead of relying on figures from a previous period. Brea's Bagels uses \_\_\_\_\_ budgeting.
- A. inflation
  - B. short-term
  - C. master
  - D. zero-based
31. Which of the following is an example of ethical risk management:
- A. Reviewing invoices
  - B. Having a strong legal team
  - C. Asking for a raise
  - D. Ensuring product safety
32. The SOSWYM Company is excellent at financial recordkeeping, as it allows the company to see which of its items are selling and helps with decision-making. This is an example of how good recordkeeping can help
- A. keep track of deductible expenses.
  - B. prepare tax returns.
  - C. monitor the progress of a business.
  - D. prepare financial statements.
33. Trying to balance friendships with extracurricular activities is an example of a \_\_\_\_\_ risk.
- A. financial
  - B. relationship
  - C. reputational
  - D. health and safety
34. Waldo wants to purchase a new truck. What type of credit should he use?
- A. Installment
  - B. Regular
  - C. Budget
  - D. Revolving
35. Employees in leadership positions should make management decisions based on their company's
- A. insurance policy.
  - B. foreign investments.
  - C. governance processes.
  - D. target demographic.

36. Businesses can obtain \_\_\_\_\_ insurance to limit their exposure in situations where they are held legally responsible.
- A. renter's
  - B. disability
  - C. liability
  - D. life
37. Which of the following best represents the recession phase of a business cycle:
- A. Income and sales fall.
  - B. Employment falls and income rises.
  - C. Employment and production rise.
  - D. Sales fall and production rises.
38. Before Kirk's loan application is approved, the bank is likely to analyze his
- A. medical history.
  - B. debt ratio.
  - C. inflation rate.
  - D. political affiliation.
39. Bianca's \$4,000 investment is held in her savings account with 5% simple interest paid annually for three years. Calculate the future value of Bianca's investment.
- A. \$4,410.00
  - B. \$3,792.89
  - C. \$3,455.35
  - D. \$4,630.50
40. Which of the following is a way in which activity-based costing enhances the costing process:
- A. It accumulates all costs in one company-wide pool.
  - B. It transfers overhead costs from low-volume products to high-volume products.
  - C. It assigns overhead and direct costs to related products and services.
  - D. It expands the number of cost pools used to assemble overhead costs.
41. Which corporations can sell unlimited shares of stock to the general public?
- A. Private corporations
  - B. Nonprofit corporations
  - C. C corporations
  - D. S corporations
42. Scott, a financial analyst, wants to determine whether a company has substantial short-term assets to cover its immediate liabilities without selling inventory. What liquidity ratio should he use?
- A. Current
  - B. Cash
  - C. Days sales outstanding
  - D. Acid-test

43. Cutting costs to boost profitability may result in
- A. higher product quality.
  - B. fewer employee layoffs.
  - C. a drop in employee morale.
  - D. an increase in productivity.
44. Abeytu sent requests for price quotes to seven different chemical companies and is waiting to review the suppliers' proposed prices before making a selection. Abeytu is conducting
- A. negotiations.
  - B. blanket ordering.
  - C. competitive bidding.
  - D. forecasts.
45. Which of the following statements about incremental analysis is true:
- A. It is not applicable to short-run decisions.
  - B. It is particularly suited to long-run decisions.
  - C. It assesses the impact of large changes.
  - D. It is used to assist decision-making.
46. Which of the following is an example of a direct cost a business pays:
- A. Office supplies
  - B. Marketing costs
  - C. Production equipment
  - D. Utilities
47. Ashley prepares a budget that serves as a request for the purchase of a property. This best describes what type of budget?
- A. Operating
  - B. Promotional
  - C. Capital
  - D. Cash
48. Which of the following is a way in which a central data repository for financial information can benefit a company:
- A. It is only useful for tech-savvy employees.
  - B. It houses data across several locations.
  - C. It complicates the onboarding process.
  - D. It helps ensure data accuracy.
49. Which of the following statements about retained earnings is true:
- A. They are profits a business decides to keep.
  - B. They are profits a business distributes among shareholders.
  - C. They are profits a business has before paying its costs.
  - D. They are profits not typically used for business reinvestment.



50. Which of the following best describes customer relationship management (CRM) software:
- A. It looks to offer better customer service and avoid cross-selling products.
  - B. It helps businesses to prioritize repeat customers over new customers.
  - C. It is used to establish better relationships with top customers.
  - D. It aims to maximize the short-term value of customer relationships.
51. Which of the following has a direct effect on an organization's corporate governance policies:
- A. Company bylaws
  - B. Physical inventory
  - C. Marketing strategies
  - D. Point-of-sales quotas
52. Lianne only invests in domestic stocks and has never invested in international stocks. This is an example of
- A. globalization.
  - B. liberalization.
  - C. overvalued stock.
  - D. home bias.
53. A company is searching for troublesome patterns of events in their financial data, such as abnormalities and duplicate data entries. What compliance technology reasoning process is the company utilizing?
- A. Comparative
  - B. Temporal
  - C. Cross-source
  - D. Symbolic
54. Benford's law typically applies to data that fit specific guidelines. Which of the following is one of those guidelines:
- A. Data must be measured rather than assigned.
  - B. Smaller datasets are better than larger datasets.
  - C. All data must be qualitative.
  - D. Data should be restricted by minimums or maximums.
55. Employees in the finance industry can become members of a local \_\_\_\_\_ to build long-lasting relationships in their career field.
- A. recreational sports team
  - B. credit union
  - C. professional association
  - D. political party
56. Enterprise risk management goes beyond traditional risk management by addressing
- A. accounting discrepancies.
  - B. each risk one-by-one.
  - C. issues within specific departments.
  - D. non-insurable risks.

57. Which of the following is an example of a post-sale touchpoint:
- A. Customer satisfaction survey
  - B. Publicity
  - C. Word-of-mouth marketing
  - D. Product packaging
58. Checking the validity, reliability, and significance of data and using graphs, charts, and tables to display this data describes what step of interpreting data mining results?
- A. Choose and apply data mining techniques
  - B. Define goals and metrics
  - C. Analyze and visualize results
  - D. Explore and preprocess data
59. Mikel is responsible for interpreting financial information and systems design for his company. What type of career does he likely work in?
- A. Banking services
  - B. Securities and investments
  - C. Insurance
  - D. Accounting
60. Which of the following is a way in which businesses can effectively safeguard important financial information:
- A. Maintaining security software
  - B. Using public Wi-Fi networks
  - C. Avoiding regular updates to devices
  - D. Using simple passwords
61. Gianna's personal circle of friends is her
- A. family.
  - B. reference group.
  - C. membership group.
  - D. subculture.
62. Which of the following statements about a statement of owner's equity is true:
- A. It is another name for a cash flow statement.
  - B. It shows only the beginning owner's equity.
  - C. It is prepared before an income statement.
  - D. It shows items affecting owner's equity during a period.
63. To manage her project resource needs, Neveah used a digital system that made accurate estimates based on algorithms. Which of the following tactics did Neveah use to estimate project resources:
- A. Bottom-up estimating
  - B. Group decision-making techniques
  - C. Three-point estimating
  - D. Project management software

64. Which of the following statements about responding to customer inquiries is true:
- A. Customers don't expect businesses to respond promptly.
  - B. Delaying and ignoring customer inquiries is standard practice.
  - C. Companies should respond within 24 hours of an inquiry.
  - D. Waiting to respond won't impact a company's bottom line.
65. After completing a team project, Makai asks the other group members about their experiences when completing the project. What aspect of the project is Makai measuring?
- A. Quality of work
  - B. Scope
  - C. Team satisfaction
  - D. Schedule
66. What is a way in which a business can align its employees with its objectives?
- A. Avoid holding coaching sessions with employees
  - B. Only meet with employees when they request it
  - C. Create complicated mission and vision statements
  - D. Allow employees to shift their goals
67. What can businesses do to better protect online accounts and databases?
- A. Monitor network speeds
  - B. Use secure passwords
  - C. Send daily risk reports to the authorities
  - D. Monitor employee internet use
68. Which of the following is an example of an ethical financial compliance practice:
- A. Implementing internal control systems to prevent fraud
  - B. Hiding the level of risk of a stock from a client
  - C. Entering an arrangement to attempt to manipulate the market
  - D. Aggressively pressuring clients into selling a security
69. If a business is looking to allocate costs, what is the first step it should take?
- A. Lay off underperforming employees
  - B. Accumulate costs into a cost pool
  - C. Identify cost objects
  - D. Assign costs to cost objects
70. When Taylor bought a ticket to a concert, she decided not to purchase ticket insurance. However, the morning of the concert, Taylor becomes sick and is unable to attend. Because she didn't purchase insurance, she is not able to get her money back. What type of cost does this best describe?
- A. Sunk
  - B. Opportunity
  - C. Incremental
  - D. Differential

71. Which of the following is the primary reason a speaker makes eye contact during a presentation:
- A. To distract the audience from the presentation
  - B. To establish a connection with the audience
  - C. To conclude the presentation
  - D. To give themselves time to set up visual aids
72. Which of the following situations is a potential internal risk to a business:
- A. Climate change
  - B. Supply chain disruptions
  - C. Use of outdated technology
  - D. Cybercrime
73. Which of the following is responsible for creating and reviewing corporate governance policies for a business:
- A. Board of managers
  - B. Board of directors
  - C. Board of accountancy
  - D. Board of elections
74. Miranda is offered a lump sum payment of \$2,000 in one year. Miranda is contemplating whether it would be better to ask for the money now or to wait for it with a current discount rate of 5%. Calculate the present value of this payment.
- A. \$1,333.33
  - B. \$1,904.76
  - C. \$2,105.26
  - D. \$2,000.00
75. After working on a successful project together, Sam and Rachel gained a sense of accomplishment and pride in their work. Which of the following benefits of collaboration are Sam and Rachel experiencing:
- A. Better relationships
  - B. Greater job satisfaction
  - C. Stronger economy
  - D. More innovative ideas
76. Johnny's checks are automatically deposited into his account at his financial institution, which is owned and operated by its members. Johnny's financial institution is most likely to be a(n)
- A. investment bank.
  - B. brokerage firm.
  - C. commercial bank.
  - D. credit union.
77. Which of the following is a challenge of implementing enterprise risk management (ERM):
- A. Employees in different departments have different understandings of risk.
  - B. Enterprise risk management does not proactively address risks.
  - C. Patents, copyrights, and trademarks are not included in the ERM framework.
  - D. Enterprise risk management deals primarily with relationships among employees.

78. Leona, a professional accountant, attends a local accounting conference to meet business associates and discuss career opportunities. What career advancement activity is this known as?
- A. Networking
  - B. Coordinating
  - C. Selling
  - D. Socializing
79. Which of the following is an advantage of the future value of money:
- A. It does not rely on estimates.
  - B. It makes assumptions that always happen.
  - C. It does not assume constant rate growth.
  - D. It allows for planning.
80. Jocelyn wants to make an effort to be more mindful in her life. What can she do to practice mindfulness?
- A. Worry about things that are out of her control
  - B. Be present in the moment instead of thinking about the past
  - C. Think more about the future than the present or past
  - D. Try new things and change her daily routine
81. Because of the internet, most movies and TV shows are streamed online rather than purchased as DVDs. This is an example of the internet changing the \_\_\_\_\_ utility of a product.
- A. place
  - B. possession
  - C. form
  - D. time
82. Which of the following statements best describes the primary market:
- A. It includes the New York Stock Exchange.
  - B. It is where investors trade securities.
  - C. It includes auction and dealer markets.
  - D. It is where securities are created.
83. Which of the following is an example of a period cost for a business:
- A. Direct labor
  - B. Manufacturing supplies
  - C. Marketing expenses
  - D. Raw materials
84. A company's board of directors is responsible for acting in the best interest of the company's
- A. shareholders.
  - B. chief executive officer.
  - C. chief financial officer.
  - D. mid-level managers.

85. Which of the following is the purpose of an income statement:
- A. To inform about the ability of a business to generate profit
  - B. To show the nature of cash receipts and cash disbursements
  - C. To estimate the liquidity, funding, and debt position of an entity
  - D. To inform about the status of the business at a moment in time
86. Properly training employees on safety procedures is an effective way for companies to limit their \_\_\_\_\_ - liability exposure.
- A. product
  - B. customer
  - C. employee
  - D. fiduciary
87. Shortly after Dana sets her company's budget, one of the company's suppliers raised its prices. This is an example of how \_\_\_\_\_ can cause budget variance.
- A. inaccurate budgeting
  - B. changes in costs
  - C. employee fraud
  - D. improved operations
88. As a mechanic, Twiggy often uses \_\_\_\_\_ to diagnose trouble in a boat's engine.
- A. expert systems
  - B. Voice over Internet Protocol
  - C. satellite technology
  - D. electronic transfer of funds
89. When a person uses a decision-making model to make a choice, they can trust that they
- A. achieved success.
  - B. carefully evaluated alternatives.
  - C. made the best possible choice.
  - D. followed their intuition.
90. Natural disasters like tornadoes, earthquakes, and floods are considered \_\_\_\_\_ risks.
- A. operational
  - B. hazard
  - C. financial
  - D. strategic
91. Terry, a corporate executive for a tech organization, learns that his company is about to acquire a smaller company. Before the deal goes through and is announced publicly, Terry informs a couple of his friends of the acquisition so they can buy shares in the company before the stock price rises. This is an example of
- A. ethical trading.
  - B. predatory lending.
  - C. insider trading.
  - D. affinity fraud.

92. Which of the following situations is a potential external risk to a business:
- A. An employee is injured on the job.
  - B. The inflation rate changes over time.
  - C. Management delays approval for the yearly budget.
  - D. An inaccurate inventory count leads to missing products.
93. Theo is the financial planner for the Anderson family. Theo often recommends high-risk, high-commission investments in an effort to earn a larger commission for himself. This is an example of
- A. a finance charge.
  - B. acting in good faith.
  - C. a conflict of interest.
  - D. complying with laws and regulations.
94. In which of the following situations would a conversational, informal tone and slang be most appropriate:
- A. Company-wide email
  - B. Report for a CEO
  - C. Industry publication
  - D. Social media post
95. Which of the following is an example of a corporate governance process intended to promote transparency:
- A. Promoting a top executive
  - B. Conducting internal audits
  - C. Hosting brainstorming sessions
  - D. Complying with external regulations
96. Costs that are tied to a company's level of production are most likely to be categorized as \_\_\_\_\_ costs.
- A. operating
  - B. indirect
  - C. variable
  - D. fixed
97. Which of the following is an advantage of a financial management information system:
- A. It makes decisions for businesses.
  - B. It does not allow for integration.
  - C. It helps with planning and decreases efficiency.
  - D. It gives businesses a competitive advantage.
98. Effectively managing information regarding trademarks and patents helps a company preserve its
- A. stocks.
  - B. identity.
  - C. customers.
  - D. inventory.

99. Mateo, an employee at a retail store, is dealing with an angry customer. The customer is yelling, being disrespectful, and keeps talking over Mateo when he tries to help. How can Mateo model ethical behavior in this situation?
- A. Tell the customer they are being rude
  - B. Make the customer leave the store
  - C. Be disrespectful and yell back to the customer
  - D. Treat the customer with fairness
100. A clothing manufacturer is comparing the benefits and costs of expanding its operations by adding another product line. This is an example of a \_\_\_\_\_ analysis.
- A. SWOT
  - B. feasibility
  - C. marginal
  - D. cash flow



1. C

Green. On many stock tickers shown on TV networks, colors are used to indicate how a stock is trading. Green indicates that the stock is trading higher than the previous day's close. If it is red, the stock is trading lower than the previous day's close. If it is white or blue, it means the stock is unchanged from the previous day's close.

SOURCE: FI:275 Interpret securities table

SOURCE: Investopedia. (2022, February 6). *How to read a stock ticker*. Retrieved December 11, 2023, from <https://www.investopedia.com/articles/01/070401.asp>

2. D

Security. Businesses are vulnerable to security threats such as theft and robbery—especially when employees are not careful to take the necessary precautions against them. Failing to set the alarms exposes a business to security risks. This example is not related to product liability, conflicts of interest, or fairness.

SOURCE: RM:041 Explain the role of ethics in risk management

SOURCE: LAP-RM-041—Manage Risk the Right Way (Ethics in Risk Management)

3. B

Groupthink. When a person makes a poor decision out of fear of disagreeing with a group, they are demonstrating groupthink behavior. Status quo bias refers to a preference to maintain the status quo and the view that a change from it is a loss. Acceptance refers to a conscious decision to personally agree with a practice instead of simply following the crowd. Critical thinking involves an analysis or assessment to make sound judgments by viewing other viewpoints or ideas. Monique is not demonstrating acceptance or critical thinking because she is opting to follow the crowd and is not making sound judgments in doing so.

SOURCE: EI:134 Challenge the status quo

SOURCE: LAP-EI-134—Unfollow the Crowd (Challenging the Status Quo)

4. C

The economy's output decreases. When the unemployment rate is high, the economy's output decreases. When people are unemployed, they and their families have less disposable income and lower purchasing power. This means that unemployed workers spend far less than employed workers with steady income, as unemployed workers have less money to spend. As a result, the nation as a whole loses their contribution to the economy in terms of buying goods and services. Unemployment also affects those workers who are still employed, as they may be concerned about losing their jobs, feel guilty for having a job when their former co-workers are out of work, or even feel lucky to have kept their jobs. In this way, unemployment hurts employee morale.

SOURCE: FI:574 Describe the relationship between economic conditions and financial markets

SOURCE: Picardo, E. (2023, August 21). *How the unemployment rate affects everybody*. Retrieved December 11, 2023, from <https://www.investopedia.com/articles/economics/10/unemployment-rate-get-real.asp>

5. C

Sources of cash flowing out of a business. A cash flow statement is a business's best guess, or estimate, as to when, where, and how much money will flow into and out of the business. Running along the left edge of the cash flow statement is a wide column, divided into seven parts: beginning cash balance, cash receipts, total cash receipts, total cash available, cash payments, total cash paid out, and ending cash balance. Next is a series of vertical columns that indicate each month of the tax year. The cash payments section of a cash flow statement refers to the sources of cash flowing out of the business. The cash receipts section refers to the specific sources of money flowing into the business. The money a business has at the beginning of the month is the beginning cash balance section, while the money a business has left at the end of the month is the ending cash balance section.

SOURCE: FI:091 Describe the nature of cash flow statements

SOURCE: LAP-FI-091—Count the Cash (Cash Flow Statements)

6. A

A Ponzi scheme. A Ponzi scheme is an investment scam that lures in new investors by promising high rates of return with little to no risk. Ponzi schemes pay returns to investors from the promoter's own money or from the money paid by new investors, rather than from the actual profit earned by the scheme. Phishing is an online identity-theft scam that fools its victims into believing they are submitting sensitive, personal information (such as credit card numbers or bank passwords) to a legitimate website. Insider trading refers to the buying or selling of a security by someone who has access to nonpublic information about that security. A boiler room is a method in which scammers use high-pressure tactics on potential investors by relying on cold calls, fast talking, and vague responses to make their sales.

SOURCE: BL:133 Discuss legal considerations in the finance industry

SOURCE: New York State Attorney General. (2023). *Investment fraud*. Retrieved December 1, 2023, from <https://ag.ny.gov/resources/individuals/investing-finance/investment-fraud>

7. A

Be true to your core values, beliefs, and attitudes. Reflecting on and processing what you have learned, otherwise known as critical thinking, will help you make an informed decision on a topic that feels true to your core values, beliefs, and attitudes. Being true to your values and beliefs does not mean proving to others that they are wrong. Sometimes, you may even realize that they are right and you are wrong. Being respectful helps you prevent offending or belittling others; reflecting on what you have learned is an internal process and does not necessarily impact how you treat others. Reflecting on what you have learned often requires you to ask difficult questions, not avoid them.

SOURCE: EI:136 Consider conflicting viewpoints

SOURCE: LAP-EI-136—Pick a Side (Considering Conflicting Viewpoints)

8. A

Their own economic goals. There are a number of economic choices that individuals in a private enterprise economy are free to make. One of the most basic is the freedom to choose your own personal economic goals. You are free to select the standard of living that you would like to achieve. They are not, however, free to choose which taxes to pay, which laws to obey, or how much they will be paid by their employers.

SOURCE: EC:009 Explain the concept of private enterprise

SOURCE: LAP-EC-909—People Power (The Private Enterprise System)

9. A

Are missing. Nonconforming data refers to data with values that are either missing, incomplete, or not consistent with other values in the same or comparable reports. Additionally, nonconforming data require further analysis or verification.

SOURCE: NF:124 Demonstrate advanced database applications

SOURCE: Law Insider. (2023). *Nonconforming data definition*. Retrieved December 28, 2023, from <https://www.lawinsider.com/dictionary/nonconforming-data>

10. B

Intellectual property. Legal records contain information relating to or concerned with the law. Legal records include contracts/agreements, intellectual property (e.g., patents, copyrights, trademarks), leases, and permits. Companies often record customer phone calls to provide a complete record of anything that was said or decided—these make up a business's customer records. Raw materials inventory is part of a business's inventory records. The depreciation of fixed assets is part of a business's asset records.

SOURCE: NF:001 Describe the nature of business records

SOURCE: LAP-NF-001—Record It (Business Records)

11. B

Short-term gains are taxed at one's regular income tax rate. Capital gains tax is tax on earnings from the appreciation of a stock investment. Capital gains tax is owed for the tax year during which the investment is sold. Short-term capital gains tax applies if the investor owns the investment for one year or less. Short-term gains are taxed at an individual's regular income tax rate, which is higher than the tax on long-term gains. Long-term gains are levied on profits held for more than a year, not less than a year. Capital gains apply only to capital assets, such as stocks, bonds, jewelry, and real estate. Capital gains taxes are due only after an investment is sold, not before.

SOURCE: BL:134 Discuss the effect of tax laws and regulations on financial transactions

SOURCE: Fernando, J. (2023, November 25). *Capital gains tax: What it is, how it works, and current rates*. Retrieved December 1, 2023, from [https://www.investopedia.com/terms/c/capital\\_gains\\_tax.asp](https://www.investopedia.com/terms/c/capital_gains_tax.asp)

12. A

Understanding its goals. The first step a business should take when developing a budget is to gain a firm understanding of its goals. By understanding the goals the organization is working toward in the period covered by the budget, the business can prepare a budget that effectively aligns with those goals. The second step the business should take is to estimate its income for the period covered by the budget, followed by identifying its expenses. Determining its budget surplus or deficit comes after the business estimates its income and identifies expenses.

SOURCE: FM:013 Demonstrate budgeting applications

SOURCE: Stobierski, T. (2021, November 16). *How to prepare a budget for an organization: 4 steps*. Retrieved December 21, 2023, from <https://online.hbs.edu/blog/post/how-to-prepare-a-budget-for-an-organization>

13. B

Independent audits. An independent audit is an examination of a business's financial records or operations by an outside organization or institution. Segregation of duties is a concept that refers to more than one person being responsible for different aspects of completing a task. Segregating duties is a mechanism that is implemented within the company. A change in leadership and a company's code of conduct would be internal factors that impact corporate governance structures.

SOURCE: PD:302 Identify the factors that impact governance structures

SOURCE: Davoren, J. (n.d.). *Three types of corporate governance mechanisms*. Retrieved December 21, 2023, from <https://smallbusiness.chron.com/three-types-corporate-governance-mechanisms-66711.html>

14. A

Planned; actual. A variance analysis assesses the difference between two figures. It helps businesses maintain control over a project's expenses by monitoring planned (or budgeted) costs versus actual costs. A business may conduct a variance analysis for a project to determine if it needs to adjust goals, objectives, or strategies. Monitoring past, indirect, and fixed costs is not the main purpose of a variance analysis.

SOURCE: FI:661 Discuss the use of variance analysis in managerial accounting

SOURCE: Cross, V. (2019, March 12). *The role of variance analysis in businesses*. Retrieved December 18, 2023, from <https://smallbusiness.chron.com/role-variance-analysis-businesses-22641.html>

15. D

A country places taxes on imported products to increase their selling prices. A tariff (also known as a duty) is a tax on imported goods. A country limiting the number of products foreign nations can sell in its country is an example of a quota—a trade restriction that limits the quantity of goods that can move into or out of a country. A country's government determining the prices at which products can be sold is an example of a price control—government determination of product prices. A country making illegal payments in an effort to secure products in return is an example of bribery—making illegal payments intended to secure business or products in return.

SOURCE: EC:045 Discuss the impact of cultural and social environments on global trade

SOURCE: LAP-EC-045—On Top of the World (Impact of Culture on Global Trade)

16. B

Ensure customers pay regular premiums against certain risks. Insurance companies ensure their customers against certain risks, such as a car accident or a house fire. Customers pay regular premiums to insurance companies to protect them from these risks. Banks take deposits and pay interest for their use and then lend money to borrowers. Banks accept short-term deposits and make long-term loans. Banks are subject to federal and state oversight, whereas insurance companies are subject to only state-level regulation. Banks are part of a centralized clearing and payment system, while insurance companies are not.

SOURCE: FI:336 Describe the role of financial institutions

SOURCE: Thangavelu, P. (2021, June 19). *Insurance companies vs. banks: What's the difference?* Retrieved December 7, 2023, from <https://www.investopedia.com/articles/personal-finance/070715/insurance-companies-vs-banks-separate-and-not-equal.asp>

17. A

10-K. A 10-K report, also known as an annual report, gives an overview of a company's fiscal year and includes financial information along with insight into the company's leadership, mission, and culture. A 10-Q report, also called a quarterly report, provides content about a company's fiscal quarter. An 8-K report, also called a current events report, provides current information to investors after an event affects the company. A 20-G report is a fictitious term.

SOURCE: FI:274 Describe sources of securities information

SOURCE: Kuepper, J. (2021, October 31). *The best investment information sources*. Retrieved December 12, 2023, from <https://www.thebalancemoney.com/top-best-sources-of-investor-information-1979207>

18. A

It uses statistical trends gathered from trading activity. The two types of financial analysis are fundamental analysis and technical analysis. A technical analysis is a process using historical information from market activity, prices, and volume to evaluate securities and predict future price activity. A technical analysis uses statistical trends gathered from trading activity and looks for patterns to understand the market of a security, rather than analyzing a security's fundamental attributes. A fundamental analysis uses ratios gathered from data in financial statements to determine a business's value. In addition to a thorough review of the company's economic and financial situations, a fundamental analysis can help analysts arrive at an intrinsic value for the security.

SOURCE: FM:014 Demonstrate financial analysis applications

SOURCE: Tuovila, A. (2023, December 20). *Financial analysis: Definition, importance, types, and examples*. Retrieved December 27, 2023, from <https://www.investopedia.com/terms/f/financial-analysis.asp>

19. D

Banking services. There are many jobs to be had within banking, one of which is a loan officer. A loan officer is a person who specializes in finding clients and helping them to apply for loans, such as commercial, consumer, or mortgage. Loan officers do not work in accounting, insurance, or corporate finance.

SOURCE: PD:152 Discuss employment opportunities in the finance industry

SOURCE: LAP-PD-152—Career Opportunities in Finance

20. B

Stocks. The equity market, also known as the stock market, is where investors and traders sell shares of stock. The debt market, also known as the bond market, is where investors and traders buy and sell bonds and loans. Loans are a type of credit—the arrangement by which businesses or individuals can purchase now and pay later.

SOURCE: FI:337 Explain types of financial markets (e.g., money market, capital market, insurance market, commodities markets, etc.)

SOURCE: Maverick, J.B. (2021, December 13). *Debt market vs. equity market: What's the difference?* Retrieved December 8, 2023, from <https://www.investopedia.com/ask/answers/071415/what-are-differences-between-debt-and-equity-markets.asp>

21. D

Prevention. The five key functions of a compliance department are identification, prevention, monitoring and detection, resolution, and advisory. The prevention function designs and implements controls to protect a company from risks. Those risks are identified in the identification function. The resolution function resolves compliance difficulties as they occur. The advisory function advises the company on rules and controls.

SOURCE: BL:148 Discuss the nature and scope of compliance in the finance industry

SOURCE: International Compliance Association. (2023). *What is compliance?* Retrieved December 4, 2023, from <https://www.int-comp.org/learn-and-develop/subject-areas/career-pages-governance-risk-and-compliance>

22. B

Prepares data for external users. Financial accounting is a type of accounting that involves preparing and reporting financial data to external users who are not directly involved in business operations. Managerial accounting is a type of accounting that involves preparing and reporting financial data to internal users, usually managers, who need financial information to control day-to-day operations and to make financial decisions and plans affecting the business. Both financial and managerial accounting determine and measure cost and deal with financial statements. Financial accounting looks at the past while analyzing financial information, whereas managerial accounting looks at the future by examining financial information to make forecasts.

SOURCE: FI:660 Explain the nature of managerial accounting

SOURCE: Atlantic University. (2023, June 28). *Financial accounting vs. managerial accounting: What's the difference?* Retrieved December 11, 2023, from <https://bau.edu/blog/financial-accounting-vs-managerial-accounting>

23. D

Reporting to the person directly above you. One of the most important parts of following the chain of command is to report to the person directly above you. Once you have identified the individual directly above you in the chain of command, report to them whenever you have a question, concern, or idea. Your direct supervisor should be the person that you interact with the most on a daily basis. Unless your manager asks you to do something unethical or illegal, you should do what they say. Even if your boss is too busy to offer you immediate help, you should not bypass them on the chain of command. One of the first things you should do when you are hired is figure out your company's organizational structure and chain of command.

SOURCE: PD:252 Follow chain of command

SOURCE: LAP-PD-252—Don't Cheat the Chain (Following Chain of Command)

24. B

Decreased transparency. Corporate governance creates a more transparent business environment, which can increase investor confidence and minimize corruption. When corporate governance is insufficient, corruption can increase and investor confidence can decrease. Corporate governance keeps any one person from having too much control, therefore insufficient corporate governance reduces accountability within the organization.

SOURCE: PD:213 Discuss the importance of corporate governance in business

SOURCE: Chen, J. (2023, October 31). *Corporate governance definition: How it works, principles, and examples*. Retrieved December 20, 2023, from <https://www.investopedia.com/terms/c/corporategovernance.asp>

25. D

Aims to reduce variation and waste. Lean refers to a quality-control method that focuses on maximizing customer value while minimizing waste, whereas Six Sigma is a popular quality-management methodology that relies on a five-step approach to improve any business process by reducing process variation and enhancing process control. Therefore, Lean Six Sigma is a fact-based, data-driven philosophy of improvement that aims to reduce waste and variation. Lean Six Sigma prioritizes defect prevention over defect detection.

SOURCE: FM:016 Discuss non-traditional uses for financial information (e.g., lean, sustainability reporting, activity-based costing [ABC], six sigma)

SOURCE: American Society for Quality. (2023). *What is Six Sigma?* Retrieved December 27, 2023, from <https://asq.org/quality-resources/six-sigma>

26. B

Health and safety. Health and safety policies are designed to protect employees and customers from harm. Common health and safety guidelines include requiring employees to scan ID badges to access company buildings, display "wet floor" signs when necessary, and use the handrails on staircases. A disciplinary policy outlines how employees will be punished for breaking company rules. Leave policies describe how many days of paid and unpaid leave employees are entitled to. Policies regarding discrimination and harassment are intended to keep employees and customers safe from inappropriate and hurtful behavior. Requiring employees to scan their ID badges is not a disciplinary, leave, or discrimination/harassment policy.

SOURCE: PD:250 Adhere to company protocols and policies

SOURCE: LAP-PD-250—Do You Follow? (Adhering to Company Protocols and Policies)



27. C

Consolidation. Consolidation refers to combining assets, liabilities, and other financial items (such as financial statements) of two or more entities into one. It also refers to the union of smaller companies into larger companies through acquisitions or mergers. Bancassurance is an arrangement between an insurance company and a bank where the insurer can sell its products to bank customers. Financing is funding a business activity or project through debt, equity, or venture capital. Inflation refers to the rise in prices that may occur when demand exceeds supply or when productivity declines and costs of labor go up.

SOURCE: FI:573 Discuss the nature of convergence/consolidation in the finance industry

SOURCE: Kenton, W. (2020, November 27). *Consolidate: What it means in business and finance*. Retrieved December 8, 2023, from <https://www.investopedia.com/terms/c/consolidate.asp>

28. A

An environmental distraction. Environmental distractions are aspects of the setting that divert the listener's attention away from the speaker's message. Common environmental distractions include noises from physical objects such as phones, TVs, computers, etc. Internal distractions are concerns, thoughts, or worries on the part of the listener that take away from their ability to attend to the speaker's message. Paraphrasing is restating the speaker's message using your own words. Active listening uses nonverbal cues, paraphrasing, questioning, and other techniques to let a speaker know that a message has been heard and understood.

SOURCE: CO:017 Demonstrate active listening skills

SOURCE: LAP-CO-017—Listen Up! (Demonstrating Active Listening Skills)

29. B

Manage debt. Knowing how to keep a business running smoothly is the most important use of financial information. Paying off a loan early is one way a business can manage its debt. Analyzing financial information helps businesses understand the different ways debt can be managed. While businesses can use financial information to accomplish a variety of tasks, Greenery House is not using the information to create budgets, increase sales, or acquire new businesses.

SOURCE: FI:579 Describe the need for financial information

SOURCE: LAP-FI-579—By the Numbers (The Need for Financial Information)

30. D

Zero-based. Zero-based budgeting requires managers to demonstrate the need for every expense instead of relying on figures from a previous period. In effect, each new budget begins at zero. A master budget is made up of information from specialized budgets that are generated by individual departments. To determine specific dollar amounts for budgets, some companies might use the previous budget with an across-the-board percentage increase based on inflation—however, inflation budgeting is a fictitious term. Businesses use both short- and long-term budgets, but in this example, Brea's Bagels is not using short-term budgeting.

SOURCE: FI:106 Describe the nature of budgets

SOURCE: LAP-FI-106—Money Tracks (Nature of Budgets)

31. D

Ensuring product safety. Companies need to consider the ethics of product safety. Many products carry the risk of harming or injuring customers—therefore companies must practice ethical risk management by protecting the customer as much as possible. Asking for a raise and reviewing invoices are normal business practices, but they are not necessarily related to risk management. Having a strong legal team is a risk management practice but is not necessarily ethical because a strong legal team does not always act in the best interest of customers.

SOURCE: RM:041 Explain the role of ethics in risk management

SOURCE: LAP-RM-041—Manage Risk the Right Way (Ethics in Risk Management)

32. C

Monitor the progress of a business. Keeping good records is very important to companies, as it will help them monitor the progress of their business, prepare financial statements and tax returns, identify sources of income, keep track of deductible expenses, and more. Just like with the SOSWYM Company in this scenario, good recordkeeping can help with monitoring the progress of a business, as it can show whether a business is improving, which items are selling, or what changes need to be made. This is not an example of how good recordkeeping can help prepare financial statements or tax returns or keep track of deductible expenses.

SOURCE: FM:002 Explain the nature and scope of the financial-information management function

SOURCE: Internal Revenue Service (2023, March 23). *Why should I keep records?* Retrieved December 19, 2023, from <https://www.irs.gov/businesses/small-businesses-self-employed/why-should-i-keep-records>

33. B

Relationship. Relationship risks are the risks that come with your choice of friends and their impact on you. Balancing friendships with extracurricular activities is a relationship risk because that decision has a direct impact on your friends and could put those relationships at risk. There is no indication that this is an example of a health and safety risk or financial risk. While this kind of decision could affect your reputation, the example better exemplifies a relationship risk because it directly impacts friendships.

SOURCE: EI:091 Assess risks of personal decisions

SOURCE: LAP-EI-091—Worth the Risk (Assessing Risks of Personal Decisions)

34. A

Installment. Installment credit is designed to handle one total amount of credit, which is paid in installments within a certain time period. Installment credit is commonly used to purchase large, expensive items such as furniture or cars. Regular credit accounts are used to obtain small-ticket items during a set period of time, usually 30 days. Budget credit accounts advertise credit terms such as “90 days same as cash.” Revolving credit accounts involve setting a credit limit and paying the amount due each month or making minimum, monthly payments on the account.

SOURCE: FI:002 Explain the purposes and importance of credit

SOURCE: LAP-FI-002—Give Credit Where Credit Is Due (Credit and Its Importance)

35. C

Governance processes. Governance provides a framework for decision-making and management. Managers must work within the guidelines and processes established by the governing body. While a company's target demographic, foreign investments, and insurance policies are important, they should not greatly influence management decisions within the company.

SOURCE: PD:303 Describe the impact of governance processes on decision-making and management functions

SOURCE: Chen, J. (2023, October 31). *Corporate governance definition: How it works, principles, and examples*. Retrieved December 20, 2023, from <https://www.investopedia.com/terms/c/corporategovernance.asp>



36. C

Liability. Professional liability insurance is a type of insurance that provides financial protection for certain types of professionals, such as doctors, nurses, lawyers, architects, and accountants. The purpose of the insurance is to reduce the risk of financial loss to the individual and to the company for whom they work if a client or patient sues them. The purpose of disability insurance is to cover people who cannot work for long periods of time due to illness or injury. Renter's insurance is a type of property insurance that covers the policyholder's belongings without covering their physical household or dwelling. Life insurance is a type of insurance that offers a beneficiary compensation upon the death of the policyholder.

SOURCE: RM:043 Discuss legal considerations affecting risk management

SOURCE: Kagan, J. (2022, June 21). *Liability insurance*. Retrieved December 21, 2023, from [https://www.investopedia.com/terms/l/liability\\_insurance.asp](https://www.investopedia.com/terms/l/liability_insurance.asp)

37. A

Income and sales fall. Business cycles refer to periods of expansion and contraction (or recession) in economic activities. A recession is a state of economic decline in which income, sales, employment, and production each fall. The recovery phase of a business cycle sees sustained economic expansion that typically results in a rise in income, sales, employment, and production.

SOURCE: FI:574 Describe the relationship between economic conditions and financial markets

SOURCE: Achuthan, L. (2022, June 15). *Business cycle: What it is, how to measure it, the 4 phases*. Retrieved December 11, 2023, from <https://www.investopedia.com/terms/b/businesscycle.asp>

38. B

Debt ratio. The debt ratio refers to a financial ratio that indicates a company's or individual's level of debt in relation to their assets, expressed as a decimal or percentage. If the applicant has a high level of outstanding debt and few liquid assets, the applicant is more likely to default on the loan. The bank may consider the economy's inflation rate in relation to Kirk's debt ratio when evaluating the loan application. The bank will likely not consider Kirk's political affiliation or medical history.

SOURCE: FM:009 Describe techniques used to analyze customer financial information

SOURCE: Hayes, A. (2023, December 16). *What is the debt ratio?* Retrieved December 27, 2023, from <https://www.investopedia.com/terms/d/debratio.asp>

39. D

\$4,630.50. Future value (FV) is the value of a current asset at some point in the future due to assumed growth from accumulated interest and potential cash flows. The FV of Bianca's \$4,000 investment in this scenario is \$4,630.50. The formula for calculating future value is  $FV = \text{Investment amount} \times (1 + \text{interest rate})^{\text{number of years}}$ . In this scenario, the investment amount is \$4,000, the interest rate is 5% (or .05), and the number of years is 3. When plugging in the information from this scenario, the formula is:  $FV = \$4,000 \times (1 + .05)^3 = \$4,630.50$ .

SOURCE: FI:238 Calculate the time value of money

SOURCE: Chen, J. (2023, March 19). *Future value: Definition, formula, how to calculate, example, and uses*. Retrieved December 14, 2023, from <https://www.investopedia.com/terms/f/futurevalue.asp>

40. D

It expands the number of cost pools used to assemble overhead costs. Activity-based costing (ABC) is a costing method that assigns overhead and indirect costs to related products and services. Essentially, ABC first assigns costs to activities that are the real cause of overhead and then assigns costs of those activities only to the products or services that actually demand the activities. One way in which ABC enhances the costing process is by expanding the number of cost pools used to assemble overhead costs. Rather than accumulating all costs in one company-wide pool, it pools costs by activity. ABC transfers overhead costs from high-volume products to low-volume products, thus raising the unit cost of low-volume products.

SOURCE: FM:016 Discuss non-traditional uses for financial information (e.g., lean, sustainability reporting, activity-based costing [ABC], six sigma)

SOURCE: Kenton, W. (2023, December 16). *Activity-based costing (ABC): Method and advantages defined with example*. Retrieved December 28, 2023, from <https://www.investopedia.com/terms/a/abc.asp>

41. C

C corporations. C corporations can sell unlimited shares of stock to the general public—meaning there may be unlimited stockholders in just one company. To qualify as an S corporation, a company must have 100 or fewer shareholders. A nonprofit corporation cannot issue shares of stock. Private corporations do not offer shares for sale to the general public.

SOURCE: BL:003 Explain types of business ownership

SOURCE: LAP-BL-003—Own It Your Way (Types of Business Ownership)

42. D

Acid-test. An acid-test ratio determines whether a company has substantial short-term assets to cover its immediate liabilities without selling inventory. It does so by measuring the company's ability to meet its short-term obligations with its most liquid assets. The ratio therefore excludes inventories from its current assets, as inventory may not be converted to cash quickly. A current ratio measures a company's ability to meet current liabilities out of current assets. A cash ratio removes many current assets when considering a business's ability to meet its short-term goals, as it only looks at assets that are already liquid. A days sales outstanding ratio refers to the average number of days it takes a company to collect payment after making a sale.

SOURCE: FM:009 Describe techniques used to analyze customer financial information

SOURCE: Hayes, A. (2023, December 17). *Understanding liquidity ratios: Types and their importance*. Retrieved December 27, 2023, from <https://www.investopedia.com/terms/l/liquidityratios.asp>

43. C

A drop in employee morale. One of the simplest ways to maximize profits is to minimize expenses. If a business can make the same amount in sales but spend less money doing it, it will have more money in hand to either pay its owners, or shareholders, or reinvest back into the company. While cutting costs may boost profitability, it can have some negative effects, such as employee layoffs; a drop in employee morale, productivity, and efficiency; reduced employee wages or benefits; and reduced product quality. Fewer employee layoffs, an increase in productivity, and higher product quality are not typical results of a business cutting costs to boost profitability.

SOURCE: OP:190 Discuss the role of ethics in operations

SOURCE: LAP-OP-190—Above Board (Ethics in Operations)

44. C

Competitive bidding. Abeytu is conducting competitive bidding, which involves sending out a request for bids, reviewing proposed prices (bids), and selecting the best supplier for the job, based on cost or overall terms. Negotiating is the process of one party reaching an agreement with another party to meet specific needs or wants. To forecast means to predict something, such as sales or trends. A blanket purchase order is a special kind of purchase order normally used only for fairly inexpensive goods or services the business uses regularly. Abeytu is not forecasting, blanket ordering, or negotiating in this scenario.

SOURCE: OP:015 Explain the nature and scope of purchasing

SOURCE: LAP-OP-015—Buy Right (Purchasing)

45. D

It is used to assist decision-making. Incremental analysis is a technique used to assist decision-making by assessing the impact of small changes. It is also commonly described as a way to assist decisions at the margin. Incremental analysis is applicable to both short- and long-run decisions. However, it is particularly suited to short-run decisions.

SOURCE: FI:659 Describe marginal analysis techniques and applications

SOURCE: Corey, J. (2023, November 20). *What is incremental analysis?* Retrieved December 15, 2023, from <https://www.smartcapitalmind.com/what-is-incremental-analysis.htm>

46. C

Production equipment. Direct costs are expenses that can be directly linked to a specific item, service, project, or expense category. Examples of direct costs include production equipment, labor, and materials. Indirect costs are expenses that cannot be directly linked to a specific product or service. Examples of indirect costs include utilities, office supplies, payroll, marketing and advertising costs, and rent.

SOURCE: FI:663 Discuss the nature of cost allocation

SOURCE: Juma, A. (2023, March 10). *Direct vs. indirect costs: Differences and examples*. Retrieved December 15, 2023, from <https://www.indeed.com/career-advice/career-development/direct-vs-indirect-costs>

47. C

Capital. A capital budget typically is a request for purchases of large assets (such as property, equipment, or IT systems) that create major demands on a company's cash flow. Capital budgets are often used to allocate funds, set priorities, and control risks in decision-making. Because Ashley prepares a budget that serves as a request for the purchase of a property, this scenario is an example of a capital budget. An operating budget details the revenues and expenses associated with day-to-day operations and divides them into major categories (such as revenues, salaries, and benefits). A cash budget ties capital and operating budgets together and accounts for the timing of both payments and receipt of cash from revenues. Cash budgets help businesses manage their cash flow effectively by assessing whether additional capital is required, if there is excess capital, or whether the company needs to raise more money. A promotional budget refers to the amount of money a business plans to spend on promoting its goods and services during a certain period of time.

SOURCE: FM:013 Demonstrate budgeting applications

SOURCE: Schmidt, J. (2023). *Budgeting*. Retrieved December 21, 2023, from <https://corporatefinanceinstitute.com/resources/fpa/budgeting>

48. D

It helps ensure data accuracy. Central data repositories allow for businesses to store their information and data from different sources in a logical, organized way. Data repositories help ensure data accuracy by helping businesses avoid data duplication, eliminate inconsistencies in data, and circumvent other problems. Data repositories store data in one, centralized location. Central data repositories are useful for everyone, no matter how tech-savvy one is, as they allow team members to navigate data with ease. Data repositories do not complicate the onboarding process; rather, they make it easier for new team members to understand a business's organizational structure and find the data they need.

SOURCE: FM:011 Describe the use of technology in the financial-information management function

SOURCE: Mizrahi, E. (2023, September 14). *What are the benefits of a data repository?* Retrieved December 20, 2023, from <https://www.secodia.co/blog/what-are-the-benefits-of-a-data-repository>

49. A

They are profits a business decides to keep. Retained earnings are any profits that a business decides to keep after paying all its direct and indirect costs, income taxes, and dividends to shareholders. Businesses typically use retained earnings for business reinvestment, rather than distributing them among shareholders in the form of dividends.

SOURCE: FI:630 Explain the nature of statements of changes in equity

SOURCE: Carlson, R. (2020, July 17). *What are retained earnings?* Retrieved December 13, 2023, from <https://www.thebalancemoney.com/what-are-retained-earnings-393324>

50. C

It is used to establish better relationships with top customers. Customer relationship management (CRM) refers to the strategies, processes, technology, and people a business uses to build, maintain, and maximize the long-term value of customer relationships. CRM software provides businesses with information about their customers and is used to establish better relationships with top customers. CRM software can help businesses increase revenues by retaining existing/repeat customers and discovering new ones, rather than prioritizing one over the other. CRM software looks to provide better customer service, help a sales staff close deals faster, and cross-sell products more effectively.

SOURCE: CR:024 Use Customer Relationship Management (CRM) technology

SOURCE: Fruhlinger, J., & Wailgum, T. (2018, August 13). *What is CRM? Software for managing customer data.* Retrieved December 4, 2023, from <https://www.cio.com/article/272365/customer-relationship-management-crm-definition-and-solutions.html>

51. A

Company bylaws. Company bylaws are a set of high-level rules and guidelines that govern how a company will operate. Corporate governance can be greatly impacted by company bylaws because bylaws represent the specific rules and policies that comprise an organization's corporate governance policy. A marketing strategy is a plan of action for achieving marketing goals and objectives. Point-of-sales quotas are a type of sales-volume quota in which salespeople receive a number of points for each dollar or product sold. Physical inventory is the actual count of items of stock for a business.

SOURCE: PD:302 Identify the factors that impact governance structures

SOURCE: Schmidt, L. (2023, September 19). *Everything you need to know about company bylaws.* Retrieved December 21, 2023, from <https://www.wolterskluwer.com/en/expert-insights/everything-you-need-to-know-about-company-bylaws>

52. D

Home bias. Home bias refers to an investor's preference to invest primarily in domestic equities instead of diversifying into foreign or international equities. Because Lianne only invests in domestic stocks and has never invested in international stocks, this is an example of home bias. Globalization is the rapid and unimpeded flow of capital, labor, and ideas across national borders. Liberalization is the loosening of restrictions on something, oftentimes an economic or political system. Overvalued stock is a stock that is priced higher than the company's perceived intrinsic value.

SOURCE: FI:575 Explain the nature and scope of financial globalization

SOURCE: Chen, J. (2022, May 17). *Home bias: What it is, how it works, special considerations*. Retrieved December 11, 2023, from <https://www.investopedia.com/terms/h/homebias.asp>

53. D

Symbolic. Symbolic reasoning searches for problematic patterns of events in financial data, such as abnormalities, duplicate data entries, incomplete information, etc. Temporal reasoning deals with the timing of transactions to determine inconsistencies. Cross-source reasoning compares and analyzes several financial transactions to ensure they are consistent. Comparative reasoning simply compares two things that are similar but not alike.

SOURCE: BL:149 Describe the use of technology in compliance

SOURCE: RiskOptics. (2018, October 16). *How technology helps you better manage compliance*. Retrieved December 1, 2023, from <https://reciprocity.com/how-technology-helps-you-better-manage-compliance>

54. A

Data must be measured rather than assigned. Benford's Law states that the leading digit (or most commonly occurring digit) in a dataset is likely to be small. Benford's law typically applies to data that fit specific guidelines, including that data must be measured rather than assigned. This is because Benford's law often does not apply to assigned numbers, such as ID numbers, phone numbers, or zip codes. Other guidelines are that data should not be restricted by minimums or maximums, data must be quantitative rather than qualitative, and larger datasets are better than smaller datasets.

SOURCE: NF:124 Demonstrate advanced database applications

SOURCE: Frost, J. (2023). *Benford's Law explained with examples*. Retrieved December 28, 2023, from <https://statisticsbyjim.com/probability/benfords-law>

55. C

Professional association. Active participation in a professional organization specific to the finance industry affords finance professionals the opportunity to serve on committees, hold offices, and attend seminars with other local finance professionals. This involvement may result in long-term professional relationships for the participants. Credit unions are institutions that provide savings and loan services—joining a credit union makes that person a part-owner, but it does not necessarily build relationships with other finance professionals. Joining a political party or sports team may help build relationships with like-minded individuals but not necessarily those in the same career field.

SOURCE: PD:153 Discuss opportunities for building professional relationships in finance

SOURCE: AICPA. (n.d.). *3 reasons to get involved in professional organizations*. Retrieved August 8, 2023, from <https://us.aicpa.org/interestareas/youngcpanetwork/resources/career/3reasonstogetinvolvedinprofessionalorganizations>

56. D

Non-insurable risks. Within traditional risk management, an organization only looks at things that are insurable. Enterprise risk management (ERM) goes beyond insurable risks and addresses hazards that cannot be mitigated through insurance. Examples include data risks and reputational risks. Addressing accounting discrepancies is a more specialized task that would be the responsibility of the financial department. While ERM can address issues within specific departments, this is also a task performed by traditional risk management. Enterprise risk management also manages issues that span the entire organization. Because ERM is a more comprehensive and proactive approach to risk management, it does not have to address issues one-by-one.

SOURCE: RM:062 Discuss the nature of enterprise risk management (ERM)

SOURCE: Williams, C. (2019, September 24). *8 ways enterprise risk management is different (and better) than traditional risk management*. Retrieved January 2, 2024, from <https://strategicdecisionsolutions.com/traditional-risk-management-erm-differences/>

57. A

Customer satisfaction survey. A touchpoint is any interaction between a business and a customer or potential customer. Post-sale touchpoints give a business the opportunity to truly deliver on its brand promise. Common post-sale touchpoints include follow-up, shipping/delivery, warranties/rebates, and customer loyalty programs. Word-of-mouth marketing and publicity are touchpoints that occur before a customer does business with a company. A product's packaging is a touchpoint that takes place while doing business with a company.

SOURCE: CR:001 Identify company's brand promise

SOURCE: LAP-CR-001—Share the Promise (Identifying Brand Promise)

58. C

Analyze and visualize results. Data mining refers to the process of sorting through large raw data sets to identify patterns, relationships, and useful information. When interpreting data mining results, you should start by defining goals and metrics, followed by exploring and preprocessing data. The next step is to choose and apply data mining techniques. Then, once data mining techniques have been applied to your data, you will analyze and visualize your results. This is done by checking the validity, reliability, and significance of data, and by using graphs, charts, tables, or maps to display findings in a clear way. The final step of interpreting data mining results is to communicate and act on your results.

SOURCE: CR:024 Use Customer Relationship Management (CRM) technology

SOURCE: LinkedIn. (2023). *How do you interpret data mining results?* Retrieved December 4, 2023, from <https://www.linkedin.com/advice/0/how-do-you-interpret-data-mining-results-skills-data-analysis>

59. D

Accounting. One simple way of describing accountants is that they examine and prepare financial records. This involves activities like bookkeeping, systems design, analysis, and interpretation of accounting information. Although careers in insurance, securities and investments, and banking services careers may involve financial records, interpreting them is not the main duty as it is in accounting careers.

SOURCE: PD:152 Discuss employment opportunities in the finance industry

SOURCE: LAP-PD-152—Career Opportunities in Finance



60. A

Maintaining security software. There are many ways businesses can effectively safeguard important financial information. One of the best ways to do so is to maintain security software, meaning that all internet-enabled devices should be equipped with strong, updated security software that regularly checks for harmful activity with the use of firewalls, antivirus protection, and more. Companies should regularly update their devices and security software. Companies should encourage employees to use strong, complex passwords rather than simple passwords. Companies should use private Wi-Fi networks when possible. But if they need to use public networks, they should never allow for personal or financial information to be shared.

SOURCE: FM:011 Describe the use of technology in the financial-information management function

SOURCE: Carter, J. (2023, February 13). *8 tips for keeping your financial information secure*. Retrieved December 20, 2023, from <https://creativeplanning.com/insights/financial-planning/8-tips-for-keeping-your-financial-information-secure>

61. C

Membership group. Gianna's personal circle of friends is a membership group, a social group she belongs to. Membership groups can have a strong influence on consumer buying behavior. A reference group is a group you're not a part of (you might want to be a part of it or want to avoid being a part of it). A subculture is a culture within a culture that is usually defined by ethnicity, religion, geographic region, etc. Gianna's personal circle of friends is not necessarily her family.

SOURCE: MK:014 Explain factors that influence customer/client/business buying behavior

SOURCE: LAP-MK-014—Cause and Effect (Buying Behavior)

62. D

It shows items affecting owner's equity during a period. A statement of owner's equity shows the beginning and the ending owner's equity balances, as well as items affecting owner's equity during a period of time. A statement of owner's equity is prepared after the income statement—a financial summary that shows how much money the business has made or has lost over a period of time. A statement of owner's equity is not the same as a cash flow statement. A cash flow statement is a financial summary with estimates as to when, where, and how much money will flow into and out of a business.

SOURCE: FI:630 Explain the nature of statements of changes in equity

SOURCE: CliffsNotes. (2023). *Understanding financial statements*. Retrieved December 13, 2023, from <https://www.cliffsnotes.com/study-guides/accounting/accounting-principles-i/principles-of-accounting/understanding-financial-statements>

63. D

Project management software. If it is available to you, project management software can be extremely helpful in managing resources. The software can take all of your information and make accurate estimates based on algorithms. This type of software can help your estimates to be more accurate and save you time; however, it is often expensive and not readily available. Group decision-making techniques involve working with others as a team to improve the accuracy of estimates. Bottom-up estimating is a method of estimating resources by adding up estimates for smaller components of the project. Three-point estimating considers the ways uncertainty and risk can affect estimates.

SOURCE: OP:003 Identify resources needed for project

SOURCE: LAP-OP-003—Get What You Need (Identifying Project Resources)

64. C

Companies should respond within 24 hours of an inquiry. Timeliness is one of the most important aspects of responding to customer inquiries. Companies should aim to respond within 24 hours of an inquiry, or sooner if possible. Customers expect businesses to respond promptly and to offer reliable answers. Delaying and ignoring customer inquiries is not standard practice; rather, it can damage a business's reputation and credibility. Waiting to respond can also impact a company's bottom line, as delayed responses could send a customer to a competing business.

SOURCE: CR:012 Explain the responsibilities of finance professionals in providing client services

SOURCE: LinkedIn. (2023). *What are the best practices for responding to inquiries from customers or clients?* Retrieved December 4, 2023, from <https://www.linkedin.com/advice/0/what-best-practices-responding-inquiries>

65. C

Team satisfaction. Evaluating team satisfaction involves surveying team members about their experiences and perspectives regarding the project. Makai is not evaluating how his team hit key deadlines; therefore, he is not evaluating their project schedule. He is also not evaluating the quality, or degree of excellence, of the work itself. A project's scope is what it should and should not include. There is no evidence Makai is evaluating what was actually done for the project.

SOURCE: OP:521 Evaluate project success

SOURCE: LAP-OP-521— Making the Grade (Evaluating Project Success)

66. D

Allow employees to shift their goals. One way a business can align its employees with its objectives is to allow employees to shift their goals. Managers should regularly meet with employees (not just when employees request it) to evaluate progress and to adjust goals as needed. Sometimes, managers and employees may determine that goals they set were unrealistic or not challenging enough. In those cases, it is important to have a dialogue with employees to adjust goals accordingly. Companies should create easy to remember mission and vision statements. Managers should offer coaching sessions to their employees. This can help employees understand why they are doing their work and how it connects with the company's mission and vision.

SOURCE: PD:301 Ascertain employee's role in achieving governance objectives

SOURCE: Kinsey, A. (2020, July 13). *How to align employees with company goals*. Retrieved December 28, 2023, from <https://smallbusiness.chron.com/business-creed-25045.html>

67. B

Use secure passwords. To reduce the risk of unauthorized access to confidential information, businesses often maintain secure passwords to allow authorized employees to view secured information. It is unnecessary for companies to send daily risk reports to the authorities. Monitoring network speeds can help increase efficiency, not security. Monitoring employee internet use is often impractical and can pose numerous ethical and legal risks.

SOURCE: RM:042 Describe the use of technology in risk management

SOURCE: Ten Six. (2018, February 1). *What risk management technology should you use?* Retrieved December 21, 2023, from <https://tensix.com/what-risk-management-technology-should-you-use/>



68. A

Implementing internal control systems to prevent fraud. Financial compliance refers to the regulation and enforcement of laws in finance and capital markets. Financial compliance ranges through the entire finance industry, from investment banking practices to retail banking practices. An example of an ethical financial compliance practice is implementing internal controls to prevent financial crimes such as fraud and money laundering. Entering an arrangement to attempt to manipulate the market, hiding the level of risk of a stock from a client, and aggressively pressuring clients into selling a security are all examples of unethical financial compliance practices.

SOURCE: BL:148 Discuss the nature and scope of compliance in the finance industry

SOURCE: Corporate Finance Institute. (2023). *What is financial compliance?* Retrieved December 4, 2023, from <https://corporatefinanceinstitute.com/resources/career-map/sell-side/risk-management/financial-compliance>

69. C

Identify cost objects. Cost allocation refers to the process of identifying, accumulating, and assigning costs to cost objects (e.g., brand, project, product line, division/department, branch of a company) based on specific criteria. If a business is looking to allocate costs, the first step it should take is to identify cost objects. Cost objects are important because decisions are made with them in mind. Once cost objects are identified, the business can accumulate costs into a cost pool where they can be categorized. Then, the business can assign costs to cost objects. Laying off underperforming employees is not a step a business should take when looking to allocate costs.

SOURCE: FI:663 Discuss the nature of cost allocation

SOURCE: Corporate Finance Institute. (2023). *Cost allocation*. Retrieved December 18, 2023, from <https://corporatefinanceinstitute.com/resources/accounting/cost-allocation>

70. A

Sunk. Sunk costs are costs that have already been incurred and thus cannot be recovered. Because Taylor's ticket cannot be recovered, this is an example of a sunk cost. Differential cost (also known as incremental cost) is the difference between two cost alternatives. Opportunity cost is the benefit that is lost when you decide to use scarce resources for one purpose rather than for another.

SOURCE: FI:658 Describe types of costs used in managerial accounting (e.g., direct cost, indirect cost, sunk cost, differential cost, etc.)

SOURCE: Javed, R. (2023, July 10). *Differential, opportunity and sunk costs*. Retrieved December 15, 2023, from <https://www.accountingformanagement.org/differential-opportunity-and-sunk-costs>

71. B

To establish a connection with the audience. Making eye contact with individuals in the audience helps to establish a connection and make them feel as if you're talking directly to them. Making eye contact during a presentation does not give the speaker time to set up visual aids. A speaker summarizes their main points to conclude a presentation, which is unrelated to eye contact. A speaker would not want to distract the audience from the presentation.

SOURCE: CO:025 Make oral presentations

SOURCE: LAP-CO-025—Well Said! (Making Oral Presentations)

72. C

Use of outdated technology. Outdated technology poses several risks to businesses. In addition to the risk of falling behind its competitors, outdated technology can cause safety hazards for employees and result in major operational setbacks. Supply chain disruptions, climate change, and cybercrime are all external risks to businesses.

SOURCE: RM:058 Discuss the nature of risk control (i.e., internal and external)

SOURCE: Smolinski, I. (2023, November 29). *External risks: How to define them. How to fight them*. Retrieved December 21, 2023, from <https://www.pnc.com/insights/corporate-institutional/gain-market-insight/external-risks-how-to-define-them-how-to-fight-them.html>

73. B

Board of directors. A corporation's board of directors is responsible for approving and reviewing the corporate governance policies of the business. These corporate governance policies specify the guidelines and rules by which a corporation is directed and run. The boards of elections are local organizations that help run local elections. The board of accountancy regulates accounting practices. A board of managers runs day-to-day operations in a business and would typically not be involved in creating and reviewing corporate governance policies.

SOURCE: PD:213 Discuss the importance of corporate governance in business

SOURCE: Chen, J. (2023, October 31). *Corporate governance definition: How it works, principles, and examples*. Retrieved December 20, 2023, from <https://www.investopedia.com/terms/c/corporategovernance.asp>

74. B

\$1,904.76. Present value (PV) is the current value of a future sum of money. The PV of the \$2,000 payment in this scenario is \$1,904.76. The formula for calculating present value is:  $PV = \text{Future Value} / (1 + \text{rate of return})^{\text{number of periods}}$ . In the scenario, the future value is \$2,000, the rate of return is 5% (or .05), and the number of periods (or in this case, years) is 1. When plugging in the information from this scenario, the formula is:  $PV = 2,000 / (1 + .05)^1 = \$1,904.76$ .

SOURCE: FI:238 Calculate the time value of money

SOURCE: Fernando, J. (2023, October 31). *What is present value in finance, and how is it calculated?* Retrieved December 13, 2023, from <https://www.investopedia.com/terms/p/presentvalue.asp>

75. B

Greater job satisfaction. Collaborative work environments are often viewed as friendly and progressive places that people want to be part of. When given the freedom to use their strengths to complete successful projects together, employees gain a sense of accomplishment and pride, view tasks as challenges rather than boring activities, and ultimately experience greater job satisfaction. Better relationships, more innovative ideas, and a stronger economy are all possible benefits of collaboration, but they are not demonstrated in this example.

SOURCE: EI:130 Collaborate with others

SOURCE: LAP-EI-130—Genius Is a Team Sport (Collaborating With Others)

76. D

Credit union. A credit union is a financial cooperative set up to provide savings and credit services to its members, usually within a business, a labor union, or a certain geographic area. Credit unions are created, owned, and operated by its members. Commercial banks are full-service banks that typically work with businesses and offer a variety of banking services including checking and savings accounts, secured and unsecured loans, installment credit, and bank credit cards. Investment banks specialize in helping corporations and governments issue securities and also aid in complicated financial matters such as mergers and acquisitions. Brokerage firms offer various investing services, such as securities trading, research analysis, and advice.

SOURCE: FI:336 Describe the role of financial institutions

SOURCE: Horton, M. (2023, September 19). *Different types of financial institutions*. Retrieved December 7, 2023, from <https://www.investopedia.com/ask/answers/061615/what-are-major-categories-financial-institutions-and-what-are-their-primary-roles.asp>

77. A

Employees in different departments have different understandings of risk. A challenge to implementing enterprise risk management (ERM) is that people in various departments have different definitions and understandings of risk. Employees need to be on the same page for ERM to be successful, so a group of employees from across the organization should collaborate to form a common definition of risk. Enterprise risk management is proactive, rather than traditional risk management, which is reactive. ERM does not deal with employee relationships. Risks are not usually related to relationships among employees; there are many types of risks related to all aspects of an organization. Legal business protections, such as patents, copyrights, and trademarks, are included within the enterprise risk management framework.

SOURCE: RM:062 Discuss the nature of enterprise risk management (ERM)

SOURCE: Hayes, A. (2022, September 7). *Enterprise risk management (ERM)*. Retrieved January 2, 2024, from <https://www.investopedia.com/terms/e/enterprise-risk-management.asp>

78. A

Networking. When people connect with others who might help them accomplish their personal career and professional goals, they are networking. Finance professionals might learn about employment and continuing education opportunities as well as prospective clients (selling opportunities) through the networking process. Socializing involves personal activities rather than professional activities. Coordinating is linking activities together in a systematic or organized way.

SOURCE: PD:153 Discuss opportunities for building professional relationships in finance

SOURCE: Rodriguez, E. (2023). *Networking tips for finance professionals*. Retrieved December 20, 2023, from <https://business.fiu.edu/academics/graduate/insights/posts/networking-tips-for-finance-professionals.html>

79. D

It allows for planning. Future value (FV) is the value of a current asset at some point in the future due to assumed growth from accumulated interest and potential cash flows. FV has several advantages, including that it allows for planning, makes comparisons easier, and is easy to calculate because it relies on estimates. A disadvantage of future value is that its assumptions may not actually happen. Another disadvantage is that it does assume constant growth rate, which can often be impractical.

SOURCE: FI:238 Calculate the time value of money

SOURCE: Chen, J. (2023, March 19). *Future value: Definition, formula, how to calculate, example, and uses*. Retrieved December 14, 2023, from <https://www.investopedia.com/terms/f/futurevalue.asp>

80. B

Be present in the moment instead of thinking about the past. Mindfulness is the state of being aware of the moment you are in, including your thoughts, feelings, and actions. Being mindful means being present where you are, rather than thinking about the past or worrying about the future. When the future is uncertain, you will accept it more if you can be present in the current moment rather than worrying about what you cannot predict or control. Trying new things and changing up her daily routine may help Jocelyn step out of her comfort zone, but it won't necessarily help her with practicing mindfulness.

SOURCE: EI:092 Develop tolerance for ambiguity

SOURCE: LAP-EI-092—Embrace the Unknown (Developing a Tolerance for Ambiguity)

81. C

Form. Form utility is usefulness created by altering or changing the form or shape of a product to make it more useful to customers. Thanks to the internet, the form utility of movies has changed from the physical medium of DVDs to the digital form of streaming services. While the internet has impacted the time, place, and possession utilities of many products, the shift from DVDs to digital streaming is not an example of these forms.

SOURCE: EC:004 Determine economic utilities created by business activities

SOURCE: LAP-EC-904—Use It (Economic Utility)

82. D

It is where securities are created. The primary market is where securities are created. The secondary market is essentially the stock market, where investors trade securities among themselves. The secondary market includes the New York Stock Exchange (NYSE), as well as Nasdaq and all major exchanges around the world. The secondary market can be broken down into two specialized categories: auction markets and dealer markets.

SOURCE: FI:337 Explain types of financial markets (e.g., money market, capital market, insurance market, commodities markets, etc.)

SOURCE: Beers, B. (2021, August 29). *A look at primary and secondary markets*. Retrieved December 8, 2023, from <https://www.investopedia.com/investing/primary-and-secondary-markets>

83. C

Marketing expenses. Period costs refer to all costs not included in product costs, meaning they are not directly tied to the production process. Overhead costs; sales, general, and administrative (SG&A) costs; marketing expenses; and office depreciation are examples of period costs. Direct labor, raw materials, and manufacturing supplies are examples of product costs—the direct costs involved in producing a product.

SOURCE: FI:658 Describe types of costs used in managerial accounting (e.g., direct cost, indirect cost, sunk cost, differential cost, etc.)

SOURCE: Murphy, C.B. (2022, April 7). *Period costs vs. product costs: What's the difference?* Retrieved December 18, 2023, from <https://www.investopedia.com/ask/answers/102714/what-are-differences-between-period-costs-and-product-costs.asp>

84. A

Shareholders. A company's board of directors represents the interests of the shareholders through the board's management of the company. The board of directors has the responsibility of protecting shareholders' investments. While the board of directors does communicate with the chief executive officer (CEO) and chief financial officer (CFO), the board is not directly beholden to them. Shareholders do not act in the best interest of mid-level managers.

SOURCE: PD:214 Describe the components of a well-governed company (e.g., board of directors, reporting, transparency, internal and external audit functions)

SOURCE: McNamara, C. (2023, July 18). *Board of directors: Roles and responsibilities overview*. Retrieved December 21, 2023, from <https://management.org/boards/responsibilities.htm>

85. A

To inform about the ability of a business to generate profit. Three of the main types of financial statements are income statements, balance sheets, and cash flow statements. An income statement is a financial summary that shows how much money the business has made or has lost over a period of time. The purpose of an income statement is to inform about the ability of a business to generate a profit. Balance sheets capture the financial condition of the business at that particular moment. Balance sheets are used to estimate the liquidity, funding, and debt position of an entity. Cash flow statements estimate when, where, and how much money will flow into and out of a business. Therefore, cash flow statements show the nature of cash receipts and cash disbursements.

SOURCE: FI:274 Describe sources of securities information

SOURCE: Bragg, S. (2023, November 8). *The purpose of financial statements*. Retrieved December 12, 2023, from <https://www.accountingtools.com/articles/what-is-the-purpose-of-financial-statements.html>

86. C

Employee. Employee-liability exposure is the total risk businesses face from employees who have suffered a job-related injury, illness, or other adversity. Businesses can limit this risk by training and educating their employees on safety procedures. Training employees on safety procedures is not related to product-, fiduciary-, or customer-liability exposure.

SOURCE: RM:043 Discuss legal considerations affecting risk management

SOURCE: Buckner, S. (2023, August 15). *An employer's liability for employee's acts*. Retrieved December 21, 2023, from <https://www.findlaw.com/smallbusiness/liability-and-insurance/an-employer-s-liability-for-employee-s-acts.html>

87. B

Changes in costs. Budget variance occurs when the amount spent by a business is greater than the budget. There are several causes of budget variances, including changes in costs, employee fraud, improved operations, inaccurate budgeting, and changes in the market economy, to name a few. In this scenario, the supplier increased its prices shortly after Dana set her company's budget, meaning that the company will spend more than initially planned. This scenario is not an example of how employee fraud, improved operations, or inaccurate budgeting can cause budget variance.

SOURCE: FI:661 Discuss the use of variance analysis in managerial accounting

SOURCE: Arndt, C. (2023, March 2). *How to monitor and understand budget variances*. Retrieved December 18, 2023, from <https://www.orbacloudcfo.com/how-to-monitor-and-understand-budget-variances>

88. A

Expert systems. Expert systems are a special kind of computer software designed to mimic the knowledge of a human expert. Mechanics often use expert systems to diagnose trouble in a vehicle's engine. This allows them to fix the problem more quickly. Electronic transfer of funds is a computer-based system that allows businesses to transfer money quickly and easily. A business might use satellite technology to conduct video conferences, not diagnose trouble in an engine. Voice over Internet Protocol, like Zoom, connects people quickly by voice and picture. It's useful technology but would not necessarily help Twigg diagnose the engine trouble.

SOURCE: NF:003 Identify ways that technology impacts business

SOURCE: LAP-NF-003—TECH-tastic (Technology's Impact on Business)

89. B

Carefully evaluated alternatives. When a person uses a decision-making model, they can trust that they are making a good effort to make a decision by carefully evaluating all the alternatives available. There is no way to ensure that a decision is actually the best choice or achieves success until after the decision has been carried out and any potential consequences have occurred. A person using a decision-making model does not necessarily trust their intuition is right when making a decision.

SOURCE: PD:017 Make decisions

SOURCE: LAP-PD-017— Weigh Your Options (Decision-Making)

90. B

Hazard. Hazard risks are potential events or situations that can cause injury or harm to people, property, or the environment. Most hazard risks can only cause business losses, not gains. Types of hazard risks include natural disasters, like tornadoes, earthquakes, floods, blizzards, hurricanes, and wildfires. Operational risks are the possible events and situations that can result from employee actions, core processes, and daily business activities. Strategic risks often concern the overall business environment, economic or political issues, or the company's objectives. Financial risks are possible events or situations that directly influence a company's cash flow.

SOURCE: EC:011 Determine factors affecting business risk

SOURCE: LAP-EC-911—Lose, Win, or Draw (Business Risk)

91. C

Insider trading. Insider trading refers to the buying or selling of a security by someone who has access to nonpublic information about that security. When said person provides "tips" to others about the security before the information is public, it is also considered an insider trading violation. This is not an example of ethical trading. Affinity fraud is an investment scam in which the scammer claims to be a member of the group they are targeting (e.g., religious groups or ethnic identity). Predatory lending refers to lenders pressuring consumers into signing loan agreements that consumers cannot afford or are not in their best interest.

SOURCE: BL:133 Discuss legal considerations in the finance industry

SOURCE: U.S. Securities and Exchange Commission. (n.d.). *Insider trading*. Retrieved December 1, 2023, from <https://www.investor.gov/introduction-investing/investing-basics/glossary/insider-trading>

92. B

The inflation rate changes over time. Inflation is an external, macroeconomic phenomenon that can have a major impact on companies and the economy as a whole. Inflation can pose risks to businesses by altering the habits of consumers and devaluing the business's liquid assets. An injured employee, an inaccurate inventory count, and budget delays are all examples of internal risks to a business.

SOURCE: RM:058 Discuss the nature of risk control (i.e., internal and external)

SOURCE: Smolinski, I. (2023, November 29). *External risks: How to define them. How to fight them*. Retrieved December 21, 2023, from <https://www.pnc.com/insights/corporate-institutional/gain-market-insight/external-risks-how-to-define-them-how-to-fight-them.html>

93. C

A conflict of interest. A conflict of interest is a situation in which it is impossible to be truly impartial. Because Theo is prioritizing his own personal gain over his client's well-being, this is an example of a conflict of interest. This is not an example of complying with laws and regulations or acting in good faith. A finance charge refers to the interest charged on the outstanding balance of a credit account.

SOURCE: FM:003 Explain the role of ethics in financial-information management

SOURCE: Sherman, F. (2019, November 5). *Business ethics for a finance manager*. Retrieved December 20, 2023, from <https://smallbusiness.chron.com/business-ethics-finance-manager-20490.html>



94. D

Social media post. Knowing when and how to adapt written correspondence to different audiences is a critical business communication skill. A conversational, informal tone and slang would be most appropriate in a company's social media post. A report for a CEO and an industry publication would require a formal, serious tone and potentially technical jargon—these audiences require a more professional communication style. A company-wide email would be less formal than the publication and report but would likely avoid slang.

SOURCE: CO:203 Adapt written correspondence to targeted audiences

SOURCE: AIContentfy. (2023, November 6). *The importance of writing for different audiences as a freelance writer*. Retrieved December 26, 2023, from <https://aicontentfy.com/en/blog/importance-of-writing-for-different-audiences-as-freelance-writer>

95. B

Conducting internal audits. Internal audits are an example of effective corporate governance because they promote transparency and accountability. Audits ensure smooth day-to-day operations, clarify the chain of command, and measure organizational performance. Hosting brainstorming sessions, promoting executives, and complying with external regulations are corporate governance processes, but they do not promote transparency.

SOURCE: PD:303 Describe the impact of governance processes on decision-making and management functions

SOURCE: Davoren, J. (n.d.). *Three types of corporate governance mechanisms*. Retrieved December 21, 2023, from <https://smallbusiness.chron.com/three-types-corporate-governance-mechanisms-66711.html>

96. C

Variable. Cost accounting is a form of managerial accounting that looks to capture a company's total cost of production by assessing costs such as variable, fixed, and operating costs. Cost accounting helps businesses make fully informed decisions. Variable costs are costs tied directly to a company's level of production. Operating costs are associated with the day-to-day operations of a business. Fixed costs are costs that don't vary depending on the level of production. Indirect costs are costs that cannot directly be linked to a product.

SOURCE: FI:662 Discuss the nature of cost accounting budgets

SOURCE: Tuovila, A. (2023, December 18). *Cost accounting: Definition and types with examples*. Retrieved December 18, 2023, from <https://www.investopedia.com/terms/c/cost-accounting.asp>

97. D

It gives businesses a competitive advantage. A financial management information system (FMIS) is simply the automation of financial operations. Businesses with an FMIS have a competitive advantage over businesses that do not, as it leverages the power of information technology to bring more productivity and, thus, more satisfaction to the customer. An FMIS helps businesses stay one step ahead of their competition. An FMIS allows for integration, helps with planning, and increases efficiency. While it may help businesses with decision-making, an FMIS does not make decisions for businesses.

SOURCE: FM:002 Explain the nature and scope of the financial-information management function

SOURCE: LaMarco, N. (2019, February 13). *What are the benefits of a financial management information system?* Retrieved December 19, 2023, from <https://smallbusiness.chron.com/benefits-financial-management-information-system-71943.html>

98. B

Identity. Managing information appropriately is essential for business success because it preserves organizational identity and history. Information regarding copyrights, patents, trademarks, etc., must be managed properly. Managing trademark and patent information doesn't necessarily help a business preserve its inventory, customers, or stocks.

SOURCE: NF:110 Discuss the nature of information management

SOURCE: LAP-NF-110—In the Know (Nature of Information Management)

99. D

Treat the customer with fairness. Even though the customer is being rude and disrespectful, Mateo can model ethical behavior by treating the customer with fairness. Mateo can make the customer leave the store or tell them they are being rude, but doing either is not necessarily modeling ethical behavior. Being disrespectful and yelling back to the customer are not ways to model ethical behavior.

SOURCE: EI:132 Model ethical behavior

SOURCE: LAP-EI-132—Practice What You Preach (Modeling Ethical Behavior)

100. C

Marginal. Marginal benefit refers to the benefit experienced when adding one extra unit, while marginal cost is the cost associated with adding one extra unit. Therefore, a marginal analysis is the process of comparing the marginal benefit to the marginal cost to determine if adding one extra unit is worth it for a business. In this scenario, the clothing manufacturer is conducting a marginal analysis because it is comparing the benefits and costs of expanding its operations by adding another product line. A SWOT analysis is a marketing tool that investigates a business's strengths, weaknesses, opportunities, and threats in an organized fashion. A feasibility analysis involves examining such factors as demand, costs, competition, capital investment required, and potential profit of a product or service to determine how it will fit into the product mix. A cash flow analysis is the process of determining the amount of cash a business has to work with at any given time.

SOURCE: FI:659 Describe marginal analysis techniques and applications

SOURCE: LaMarco, N. (2018, October 27). *Why is marginal analysis important in economics?* Retrieved December 15, 2023, from <https://bizfluent.com/about-6130469-marginal-analysis-important-economics-.html>