



Competency-Based  
Competitive Events  
\*Written Exam\*

2020 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. Sheree, who owns a popular family-style restaurant, recently asked her attorney to prepare a document to protect her famous chicken noodle soup recipe. Sheree signed the document containing the recipe and had it notarized. This document is designed to protect Sheree's
  - A. copyright.
  - B. trade secret.
  - C. trademark.
  - D. patent.
2. What is typically the most significant role of a compliance officer in a bank, investment company, or insurance company?
  - A. To ensure that the company is following financial laws
  - B. To enforce the business's code of conduct
  - C. To educate employees on industry ethics
  - D. To ensure employees follow company policies and procedures
3. An annual audit is an example of a(n) \_\_\_\_\_ internal control.
  - A. corrective
  - B. detective
  - C. reconciliation
  - D. preventative
4. Which of the following is a benefit of using artificial intelligence in compliance:
  - A. Increases costs
  - B. Increases false positives
  - C. Reduces human error
  - D. Reduces efficiency
5. Mooreshead Bank has placed a claim on Marc's property to protect Mooreshead from financial loss if Marc is unable to pay back his bank loan. Mooreshead has secured a \_\_\_\_\_ against Marc's property.
  - A. license
  - B. lien
  - C. label
  - D. ledger
6. Charlotte, an investment advisor, does more than simply sell stocks and bonds. She also provides investing advice to her clients on an ongoing basis. She talks with clients about their short-term and long-term investing goals and helps them select the investments that are best for them. Charlotte acts as her clients'
  - A. credit analyst.
  - B. accountant.
  - C. fiduciary.
  - D. institutional investor.
7. Robert has learned that his company will announce a round of layoffs in two weeks. Robert decides to sell some of the stock options he had in the company before the news of the layoffs goes public. He tells his friends to do the same. This is an example of
  - A. extortion.
  - B. corporate espionage.
  - C. corporate fraud.
  - D. insider trading.
8. Raheem recently sold an investment that he had owned for five years. He sold the investment for considerably more money than he had spent on it originally. Raheem is likely to owe \_\_\_\_\_ tax on the profit that he made from the sale of the investment.
  - A. income
  - B. long-term capital gains
  - C. short-term capital gains
  - D. excise
9. What is a benefit of having established policies for taking breaks and requesting time off?
  - A. Less confusion among employees
  - B. More power for management
  - C. More open door policies
  - D. Fewer government incentives
10. Which of the following is a good way to end a business phone call:
  - A. Offer your email address if the caller needs additional information.
  - B. List all of the points made in the call.
  - C. Make small talk about the caller's day.
  - D. Wait for the caller to speak before deciding the call is over.

11. What should be included early in a written report?
- A. A description of the research method and findings
  - B. A broad sentence detailing numerous arguments
  - C. A listing of the printed and online sources cited in the report
  - D. A specific sentence that highlights the main idea of the report
12. A video conference call is a \_\_\_\_\_ channel of communication.
- A. lean
  - B. rich
  - C. slight
  - D. detailed
13. A magazine advertisement is an example of
- A. word-of-mouth marketing.
  - B. publicity.
  - C. a touchpoint.
  - D. a brand promise.
14. Which of the following forms of customer management is most likely to look outward and have a customer-centric focus:
- A. Customer relationship management
  - B. Customer experience management
  - C. Structured customer management
  - D. Inverse customer management
15. What is the primary role of financial planners?
- A. To ensure businesses are compliant with government regulation
  - B. To make the most money for their own firms
  - C. To trade with other planners in the stock market
  - D. To help clients make wise investments and prepare for the future
16. What is the primary purpose of customer-relationship management technology?
- A. To compile a mass email list
  - B. To make phone calls to keep customers interested
  - C. To archive past sales only
  - D. To establish stronger connections with customers
17. Businesses use marginal analysis for the purpose of
- A. maximizing profit.
  - B. increasing productivity.
  - C. eliminating mistakes.
  - D. maintaining reputation.
18. Valerie used to wait all year for her family's trip to the beach, where she bought saltwater taffy and homemade fudge. Now, she can order the sweets online and have them whenever she wants. This is an example of how
- A. utility is constant and unchanging.
  - B. place utility is not important.
  - C. business can create form utility.
  - D. the Internet has changed utility.
19. A company moves its manufacturing facilities to another country, where it is able to pay employees much less money. Many people see this action as unethical, but what reason might the company use to defend itself?
- A. The action is acceptable in a foreign culture.
  - B. The action is committed by unethical employees.
  - C. The action is beneficial for employees.
  - D. The action results in a negative public image.
20. A company's board of directors is often responsible for \_\_\_\_\_ and \_\_\_\_\_ the top executives.
- A. encouraging; shadowing
  - B. supporting; assessing
  - C. replacing; auditing
  - D. promoting; networking

21. In the 1970s, OPEC (Organization of the Petroleum-Exporting Countries) increased the price of oil as a form of political protest against the United States. This pushed up the costs of many goods and services in the United States. This is an example of
- A. cost-push inflation.
  - B. demand-pull deflation.
  - C. cost-push deflation.
  - D. demand-pull inflation.
22. The biggest traders of currency on the foreign exchange market are
- A. individual traders.
  - B. commercial and investment banks.
  - C. investment funds.
  - D. businesses and corporations.
23. Jackson is sure that no one will notice if he steals merchandise from his employer. Jackson is facing an ethical dilemma because of
- A. a bad role model.
  - B. a lack of consequences.
  - C. pressure from others.
  - D. a desire to prove himself.
24. Which of the following strategies can help you develop cultural sensitivity in the workplace:
- A. Reading about different cultures
  - B. Pretending cultural differences do not exist
  - C. Asking everyone to dress the same
  - D. Joking about every culture equally
25. Which of the following is an advantage of transparent communication in the workplace:
- A. Increased information security
  - B. Increased worker productivity
  - C. Increased employee turnover
  - D. Increased manager turnover
26. Which of the following is an effective approach to negotiation:
- A. Be willing to adjust your strategy based on the other side's approach.
  - B. Do not have a specific goal or target in mind.
  - C. Display strong emotional reactions.
  - D. Try to trick the other side with carefully chosen language.
27. Which of the following statements best describes office politics:
- A. Engaging in office politics will advance your career.
  - B. Office politics are negative and should be avoided.
  - C. Engaging in office politics can be beneficial.
  - D. Office politics are damaging to work relationships.
28. How are vote taking and consensus building different?
- A. In consensus building, every group member must agree on a decision.
  - B. In vote taking, every group member must agree on a decision.
  - C. In vote taking, a minority of group members make a decision.
  - D. In consensus building, a minority of group members make a decision.
29. Why do active listeners paraphrase what a speaker or presenter has said?
- A. To help the listeners recognize the speaker's nonverbal cues
  - B. To help the speaker learn how to speak more clearly
  - C. To show that they agree with the speaker's message
  - D. To confirm the speaker's message and show understanding
30. Which of the following is most likely to limit your ability to assess the long-term impact of a decision:
- A. Negative outcomes
  - B. Personal experience
  - C. Positive outcomes
  - D. Personal bias
31. What do open-end investment funds and closed-end investment funds have in common?
- A. They can issue an unlimited number of shares over time.
  - B. They are run by professional portfolio managers.
  - C. Their pricing is determined by supply and demand.
  - D. They are also known as mutual funds.

32. Sam participates in the London Stock Exchange, where investors trade stock amongst themselves without involvement from the issuing companies. Which of the following best describes this type of market:
- A. Virtual market
  - B. Primary market
  - C. Secondary market
  - D. Tertiary market
33. Which of the following is true about the debt market:
- A. It is known for being unstable by nature.
  - B. It is commonly called the stock market.
  - C. Its participants may benefit from dividends.
  - D. Its investments typically involve less risk.
34. One risk of business consolidation is
- A. growth of market share.
  - B. elimination of redundancy.
  - C. diversification of products.
  - D. clashes in corporate culture.
35. Clara works for a bank that has just developed an arrangement with an insurance company, allowing it to sell its products to the bank's clients. This is known as a \_\_\_\_\_ arrangement.
- A. bait-and-switch
  - B. BATNA
  - C. brick-and-click
  - D. bancassurance
36. A country's unemployment rate impacts the economy because when people are unemployed, they lose their
- A. absolute advantage.
  - B. individual identity.
  - C. purchasing power.
  - D. corporate connection.
37. James demonstrates home bias in his investments, which means he
- A. is limited by the markets of foreign countries.
  - B. maintains a diversified investment portfolio.
  - C. takes advantage of increased financial globalization.
  - D. could be heavily affected by a domestic market event.
38. Ann-Marie is preparing an annual report. While many people might look at the report, Ann-Marie needs to remember that this report's main audience is
- A. the CEO.
  - B. customers.
  - C. possible employees.
  - D. shareholders.
39. If a company wants to list its securities on the New York Stock Exchange, it must select a \_\_\_\_\_ ticker symbol.
- A. 4-letter
  - B. double digit
  - C. unique
  - D. color
40. Corinne has recently decided to put her money into a lending investment. Which of the following might she choose:
- A. Collectibles
  - B. Stocks
  - C. Bonds
  - D. Real estate
41. How can accountants demonstrate due care?
- A. Request competitive compensation
  - B. Serve local communities for free
  - C. Refrain from making any mistakes
  - D. Engage in professional development
42. Which of the following is a source of cash that flows into a business:
- A. Loans
  - B. Payroll
  - C. Taxes
  - D. Rent
43. Jane examined the equity statement for a company in which she invested to see her
- A. par value.
  - B. retained earnings.
  - C. treasury stock.
  - D. dividends.

44. The Kodiak Company does not pay dividends to its shareholders. In which of the following equity statement components would this money appear instead:
- A. Treasury stock
  - B. Outstanding shares
  - C. Retained earnings
  - D. Cash flow
45. In general, what is the relationship between finance managers and accountants?
- A. Finance managers determine what monetary records accountants keep.
  - B. Accountants approve the decisions that finance managers make about money.
  - C. Accountants record the information that finance managers need to make decisions.
  - D. Finance managers rely on accountants to decide on the acquisition of funds.
46. One key difference between out-of-pocket costs and sunk costs is
- A. value.
  - B. timing.
  - C. accessibility.
  - D. ownership.
47. A manager must decide whether to make products in-house or outsource manufacturing. In this scenario, the company's committed costs are likely to be
- A. relevant costs.
  - B. irrelevant costs.
  - C. cash inflows.
  - D. cash receipts.
48. A company needs a new customer relationship management system, and it is choosing between two software companies. One has a more expensive monthly fee but no startup costs. The other has a lower monthly cost but includes a startup fee. Which of the following techniques would help the company determine which option is more cost-effective:
- A. Marginal analysis
  - B. Return on investment
  - C. Vertical analysis
  - D. Sales forecasting
49. What is one way in which customer relationship management (CRM) data cleansing is useful to businesses?
- A. Data cleansing helps businesses create duplicate data.
  - B. CRM software has a limited data capacity.
  - C. Data cleansing helps businesses archive old data.
  - D. CRM software lengthens sales cycles.
50. Managerial accountants provide assistance to management by
- A. calculating probability of risky events.
  - B. preparing financial statements for public review.
  - C. gathering information on social media trends.
  - D. accumulating data on costs and profits.
51. Variance analysis documents the difference between actual and planned behavior and
- A. investigates why that discrepancy occurred.
  - B. arranges this information for public review.
  - C. changes operations to address any issues.
  - D. suspends activity until numbers are aligned.
52. Material, labor, and overhead are all components that might be the focus of
- A. performance evaluation.
  - B. marketing management.
  - C. variance analysis.
  - D. sales reporting.
53. Cost accounting budgets allow \_\_\_\_\_ to \_\_\_\_\_.
- A. management; anticipate future advertising costs
  - B. management; consider a business's total cost of production
  - C. stakeholders; anticipate future advertising costs
  - D. stakeholders; consider a business's total cost of production

54. The main difference between managerial accounting and financial accounting is the \_\_\_\_\_ of the information.
- A. arrangement
  - B. scope
  - C. audience
  - D. quality
55. In a company of 100 people, Tess's department has 10 employees. This department is responsible for 10% of the cost of insurance. This is an example of
- A. cost estimate.
  - B. cost allocation.
  - C. cost per contact.
  - D. cost-effective pricing.
56. A successful budget should be
- A. rigid.
  - B. well planned.
  - C. secret.
  - D. aggressive.
57. When calculating the future value of money, you will need to know the
- A. par value and interest rate.
  - B. present value and interest rate.
  - C. present value and exchange rate.
  - D. par value and exchange rate.
58. Ajay just won a school prize drawing and is awarded \$100. To maximize the value of his money, when should he accept the \$100?
- A. Now
  - B. In six months
  - C. In one year
  - D. In five years
59. Without accurate financial records, it is difficult to demonstrate \_\_\_\_\_ to \_\_\_\_\_.
- A. incentives; tax collectors
  - B. product benefits; customers
  - C. product specifications; vendors
  - D. profitability; investors
60. Which of the following is a common challenge for financial-information management:
- A. Financial managers typically use Microsoft Office applications for financial recordkeeping.
  - B. Many financial data are stored in custom, task-specific software and are not easily accessible.
  - C. Financial-information management's focus is on protection of customer financial data.
  - D. Managerial accountants prepare financial information for use by external stakeholders.
61. Which of the following is a potential consequence of a company being accused of unethical accounting practices:
- A. Increased employee loyalty
  - B. Stock price instability
  - C. Increased public faith
  - D. Shareholder incentives
62. What is a way in which technology has improved the management of financial information?
- A. Data are transferred instantly from information management to point-of-sale systems.
  - B. The security of financial information is no longer a concern.
  - C. Calculations can be completed more quickly and efficiently.
  - D. The amount of time required to compare financial records thoroughly has increased.
63. What are the basic components of a business budget?
- A. Fixed costs, variable costs, and semi-variable costs
  - B. Total revenues, total costs, and profit
  - C. Inventory, variable costs, and profits
  - D. Fixed assets, inventory, and investments
64. Which type of financial analysis is best for comparing a single company's historical financial information to determine trends?
- A. Vertical analysis
  - B. Horizontal analysis
  - C. Leverage analysis
  - D. Liquidity analysis

65. Which of the following is a reason to calculate a company's debt-to-equity (D/E) ratio:
- A. To compare multiple companies in different industries
  - B. To assess the level of risk involved in investing in the company
  - C. To compare the current year's performance to a previous year's
  - D. To assess the ability of a company to hire more employees
66. In the lean approach to accounting, inventory is treated as a(n)
- A. asset.
  - B. liability.
  - C. revenue.
  - D. equity.
67. Obtaining a credit score, contacting references, and calculating financial ratios are all ways to
- A. determine whether a customer is worthy of purchasing on trade credit.
  - B. determine whether an investor is capable of financing a startup.
  - C. help a financial manager decide whether to open a new location.
  - D. help a financial manager decide whether to take a company public.
68. Liquidity ratios are most often used to determine whether a company
- A. has controlled its expenses and is in a position to generate a profit.
  - B. has the resources to pay its short-term debts.
  - C. is likely to be successful in the long term.
  - D. is going to be a good investment.
69. A company uses its social media sites to improve its response time to customer complaints. Doing so helps the company directly
- A. achieve stability.
  - B. develop new goods and services.
  - C. improve customer satisfaction.
  - D. improve profitability.
70. Mira is reviewing a financial statement for a local business. During her analysis of data, she uses Benford's Law. What can this help her do?
- A. Estimate business viability
  - B. Find opportunities for profit
  - C. Identify personnel issues
  - D. Detect the possibility of fraud
71. Which of the following statements about data analytics is true:
- A. Descriptive analytics provide forecasts of the future.
  - B. Descriptive analytics recommend specific courses of action.
  - C. Prescriptive analytics recommend specific courses of action.
  - D. Predictive analytics provide descriptions of the past.
72. Which of the following methods of data mining, often used in market segmentation, involves placing observable data into naturally occurring groups:
- A. Forecasting
  - B. Prediction
  - C. Market basket analysis
  - D. Cluster analysis
73. Which of the following types of business records includes information on deductions, withholdings, and employee pay:
- A. Tax records
  - B. Asset records
  - C. Customer records
  - D. Legal records
74. Regulations are a factor relating to which of the following categories of an environmental scan:
- A. Demographics
  - B. Competition
  - C. Technology
  - D. Government
75. Which operations activity involves ensuring that a business has a large enough supply that it does not run out of products and also a small enough supply that holding costs are not too high?
- A. Quality control
  - B. Inventory control
  - C. Scheduling
  - D. Logistics



76. If Saeed is concerned that a data breach altered the completeness of his information, he is concerned about the \_\_\_\_\_ of the data.
- A. availability
  - B. confidentiality
  - C. integrity
  - D. privacy
77. A company in which each department performs completely separate functions and has its own budget and staff has an organizational structure based on \_\_\_\_\_ interdependence.
- A. reciprocal
  - B. sequential
  - C. pooled
  - D. mutual
78. Which of the following examples illustrates the importance of monitoring a project's scope:
- A. Mateo asked his staff members how they were coping with their workloads.
  - B. Zander is making sure he doesn't spend too much on supplies for the party he is throwing.
  - C. Erin spent an hour selecting fonts when she should have been practicing her speech.
  - D. Bethany wants to know if there is a chance her team won't meet its deadlines.
79. A company's full-time employees are asked to work overtime until a project is complete. As a result, the company's overall wages go from a \_\_\_\_\_ cost to a \_\_\_\_\_ cost.
- A. semi-variable; variable
  - B. variable; fixed
  - C. fixed; semi-variable
  - D. semi-fixed; semi-variable
80. Who is responsible for making sure employees maintain a good work-life balance?
- A. Coworkers
  - B. Employers
  - C. Employees
  - D. Customers
81. A business has added automation to its assembly line process. This addition is most likely an example of
- A. invention.
  - B. innovation.
  - C. creativity.
  - D. problem-solving.
82. Jamel is an employee responsible for making sure that his company's business initiatives and computer/IT processes work smoothly together. What area of business is Jamel working in?
- A. Accounting
  - B. Business information management
  - C. Operations management
  - D. Securities and investments
83. A worker who records, classifies, summarizes, analyzes, and communicates a business's financial information is a(n)
- A. compliance analyst.
  - B. bank manager.
  - C. accountant.
  - D. insurance agent.
84. Which of the following careers is likely to involve finding money for a company and then making sure that the money is managed correctly:
- A. Insurance agent
  - B. Mutual fund manager
  - C. Financial analyst
  - D. Financial accountant
85. Casey's Tree Removal Services has a set of rules, practices, and processes by which the organization is controlled. Because of the company's strict adherence to these rules and processes, it has never had any major problems with unethical behavior or mismanagement. Instead, the company enjoys a positive relationship with its customers, employees, and the public. This example demonstrates the benefits of
- A. ethics training in the workplace.
  - B. good corporate governance.
  - C. public relations initiatives.
  - D. setting SMART goals.
86. Employee involvement in company decisions often leads to greater employee
- A. sales.
  - B. burnout.
  - C. satisfaction.
  - D. relocation.

87. In a well-governed organization, what typically helps employees understand their roles and encourages positive public impressions?
- A. Transparency
  - B. Efficiency
  - C. Flexibility
  - D. Anonymity
88. It is important that businesses stay on top of their governance reports to ensure compliance because \_\_\_\_\_ can change frequently.
- A. regulations
  - B. personnel
  - C. the economy
  - D. technology
89. Who typically has the greatest influence on a company's corporate governance?
- A. Chief financial officer
  - B. Shareholders
  - C. Board of directors
  - D. HR director
90. Bailey has \$50 to spend. She can either buy a new pair of jeans or concert tickets, but not both. This is an example of
- A. governmental control.
  - B. competition in the marketplace.
  - C. limits to economic freedom.
  - D. private property.
91. Which of the following is a primary reason for a financial advisor to join a professional organization:
- A. To have more time for work responsibilities
  - B. To reduce the organization's membership dues
  - C. To obtain professional development
  - D. To increase his/her work responsibilities
92. Maria and Laura, who are both accountants, met at a conference that they both attended. The two exchanged contact information and promised to keep in touch regarding professional opportunities in their industry. What skill did Maria and Laura demonstrate in this situation?
- A. Problem solving
  - B. Networking
  - C. Advertising
  - D. Co-branding
93. Which of the following typically addresses conflicts of interest, harassment, discrimination, and confidentiality:
- A. Code of conduct
  - B. Annual report
  - C. Operating statement
  - D. Mission statement
94. Which of the following is a way that organizations can encourage transparency and reduce risk:
- A. Offer rewards based on job performance
  - B. Give employees a way to voice concerns
  - C. Carefully monitor employees' resource use
  - D. Guard against digital security threats
95. Johnny notices a strange smell in the warehouse that he manages, so he asks an inspector to determine the source of the smell. The inspector traces the odor to remodeling work being done to the warehouse office and concludes that the smell poses no health risk to any of Johnny's staff. Which of the following is a risk that Johnny must consider when deciding if he should attempt to fix the issue:
- A. Employee dissatisfaction
  - B. Company bankruptcy
  - C. Employee conflicts of interest
  - D. Company insurance
96. Which of the following is a potential negative effect that technology has had on risk management:
- A. There is too much information for any risk management system to process efficiently.
  - B. The newest software processes information more slowly than risk managers could do unassisted.
  - C. Cloud-based storage systems make confidential information vulnerable to a privacy breach.
  - D. AI-based systems are less adaptable than traditional risk management technologies.

97. A company that wishes to lower its risk management costs might start its own \_\_\_\_\_ insurance company, which is a type of corporate self-insurance.
- A. medical malpractice
  - B. professional liability
  - C. captive
  - D. compulsory
98. What risk control technique seeks to contain the effect of a catastrophic event to a particular geographic location and limit the event's effect on other locations?
- A. Avoidance
  - B. Separation
  - C. Loss prevention
  - D. Loss reduction
99. Antonia is starting a wedding cake bakery. Before she opens for business, she spends a whole day identifying any potential dangers and hazards that might interfere with her work. Once she has identified all of the potential issues, she creates a plan of response for each one that she intends to distribute to her investors. Antonia is engaging in
- A. enterprise risk management.
  - B. business objective planning.
  - C. organizational goal setting.
  - D. preliminary quality management.
100. Which of the following types of risk is generally uninsurable:
- A. Customer injury
  - B. Property damage
  - C. Employee health
  - D. Business failure



**KEY**

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1. B

Trade secret. A trade secret is undisclosed information within a particular business or industry that typically gives the business a competitive advantage. Sheree's famous chicken noodle soup, for instance, is likely a reason for her restaurant's popularity. If Sheree's competitors were to gain access to her recipe and begin serving her chicken noodle soup at their restaurants, Sheree's business would likely suffer. Copyright is the legal protection of books and other artistic works granted by government and giving their creators sole rights to them for a certain period of years. A trademark is a symbol, design, or word used by a producer to identify a good or service and registered with the government to prevent use by others. A patent is legal protection of an invention or process.

SOURCE: BL:051

SOURCE: Entrepreneur.com. (n.d.) *Intellectual property*. Retrieved January 13, 2020, from <https://www.entrepreneur.com/encyclopedia/intellectual-property>

2. A

To ensure that the company is following financial laws. Compliance officers in the financial services industry are typically responsible for ensuring that their company is following financial laws and external regulations. A compliance officer may play a role in enforcing a business's code of conduct, educating employees on industry ethics, and/or ensuring that employees follow company policies and procedures, but these responsibilities are secondary. The primary role is ensuring that the business complies with financial laws and regulations.

SOURCE: BL:148

SOURCE: International Compliance Association. (n.d.). *What is compliance?* Retrieved January 15, 2020, from <https://www.int-comp.org/careers/your-career-in-compliance/what-is-compliance/>

3. B

Detective. Businesses use a variety of internal accounting controls to ensure the reliability of accounting systems and compliance with financial laws and regulations. Detective controls such as annual audits are meant to help identify existing financial problems. Preventive controls are designed to prevent errors or fraud from happening. Corrective controls are intended to correct errors after they are identified. Reconciliation is a comparison of a business's internal accounting records to external records of some kind.

SOURCE: BL:148

SOURCE: Furlong, M. (2019, January 25). *What are the types of internal controls?* Retrieved February 3, 2020, from <https://bizfluent.com/info-8046701-types-internal-controls.html>

4. C

Reduces human error. Compliance officers can benefit from artificial intelligence (AI) in a number of ways. AI technology helps increase the efficiency and effectiveness of the compliance function, lowers the chance for human error, and decreases false positives in the system. While adopting artificial intelligence can be costly at first, companies can save money long-term as AI reduces the human capital required to carry out compliance processes and procedures.

SOURCE: BL:149

SOURCE: Rottner, S. (2019, January 15). *Three ways artificial intelligence improves compliance*. Retrieved February 3, 2020, from <https://a-teaminsight.com/three-ways-artificial-intelligence-improves-compliance/?brand=rti>

5. B

Lien. A lien is a legal claim to an item of property that protects the seller if the buyer does not complete his/her payments. Liens are designed to protect creditors from financial loss. A license is a permit that allows a business to operate. A label is printed information affixed to a consumer good. A ledger is the accounting record for a specific department or area of a business.

SOURCE: BL:071

SOURCE: Upcounsel. (n.d.). *Debtor and creditor in contract law*. Retrieved January 13, 2020, from <https://www.upcounsel.com/debtor-and-creditor-in-contract-law>

6. C

Fiduciary. A fiduciary is someone who acts on behalf of another person or organization. In most cases, fiduciaries are responsible for managing their clients' financial assets and making decisions in the best interest of their clients. Because Charlotte does more than simply sell investments to her clients, she is considered a fiduciary. An accountant gathers, records, organizes, and reports financial data. A credit analyst assesses the requests of individuals and businesses applying for loans, makes reports to the loan committee, and helps decide if the requests should be granted. Institutional investors are mutual fund managers, large investment firms, and significant holding companies who invest in the stock market.

SOURCE: BL:133

SOURCE: Kagan, J. (2019, June 25). *Fiduciary*. Retrieved February 4, 2020, from <https://www.investopedia.com/terms/f/fiduciary.asp>

7. D

Insider trading. Insider trading occurs when a company's owners, directors, or key management trade its stock. Insider trading is illegal when those individuals make trades based on information that has not been disclosed to the public. Corporate fraud involves deception purposely carried out so that a company can secure an unfair or unlawful gain. Corporate espionage involves spying on a competitor and/or theft of a competitor's proprietary information. Extortion involves using force to obtain another person's or company's property or money.

SOURCE: BL:133

SOURCE: Ganti, A. (2019, March 29). *Insider trading*. Retrieved January 15, 2020, from <https://www.investopedia.com/terms/i/insidertrading.asp>

8. B

Long-term capital gains. Capital gains are earnings from the appreciation of an investment. When an investor sells his/her investment for more money than what s/he spent on it originally, the investor is likely to owe capital gains tax. Investors pay long-term capital gains tax if they owned the asset for more than a year. If investors owned the asset for a year or less, they are likely to owe short-term capital gains tax. Income tax is a tax levied on an individual's or business's earnings. Excise taxes are indirect taxes charged on specific goods such as gasoline and alcohol.

SOURCE: BL:134

SOURCE: Kagan, J. (2019, June 25). *Capital gains tax*. Retrieved January 15, 2020, from [https://www.investopedia.com/terms/c/capital\\_gains\\_tax.asp](https://www.investopedia.com/terms/c/capital_gains_tax.asp)

9. A

Less confusion among employees. Businesses use established policies and procedures to set clear expectations for employee conduct. Employees who have a clear understanding of how and when to take breaks or request time off, for instance, are likely to be more productive. Although some policies and procedures give power to managers, established policies for taking breaks and requesting time off don't necessarily do so. An open door policy is a business practice whereby management encourages communication between employees and their superiors; however, open door policies are typically unrelated to policies for taking breaks and requesting time off. An incentive is something that motivates or encourages someone to behave a certain way. Government incentives are unrelated to policies for taking breaks and requesting time off.

SOURCE: CO:057

SOURCE: Moore, M. (n.d.). *Why have personnel policies & procedures*. Retrieved January 13, 2020, from <https://smallbusiness.chron.com/personnel-policies-procedures-1234.html>

10. A

Offer your email address if the caller needs additional information. By providing your email address, you create another line of communication for the caller in case s/he needs additional information. Providing your email address is also a good way to indicate that you would like to end the call without being abrupt. While summarizing the key points made in the call can be helpful, it is unnecessary to list every point made. You are more likely to make small talk about a caller's day at the beginning of a call versus at the end. Waiting for the caller to speak can cause confusion, especially if you are leading the call.

SOURCE: CO:114

SOURCE: Bucki, J. (2019, November 20). *How to end a business phone call*. Retrieved January 13, 2020, from <https://www.thebalancesmb.com/end-phone-calls-professionally-2533712>

11. D

A specific sentence that highlights the main idea of the report. The introduction to a written report should include a specific sentence detailing the main idea or purpose of the report. Arguments for and against the main idea should be included in the body of the report. Sources should also be cited in the body of the report as information from the different sources is introduced. The research method and findings should be included throughout the report, rather than right at the beginning.

SOURCE: CO:094

SOURCE: Reed, J. (2019, November 13). *Top report writing tips: How to make a great report*. Retrieved January 13, 2020, from <https://custom-writing.org/blog/report-writing-top-tips>

12. B

Rich. A rich channel of communication involves multiple senses such as sight and hearing. A video conference call is an example of a rich communication channel because it includes seeing other participants' faces and hearing what others are saying. A lean channel of communication generally only uses sight. Slight and detailed channels of communication are not generally recognized terms.

SOURCE: CO:092

SOURCE: Encyclopedia.com. (2019, December 11). *Communication channels*. Retrieved January 13, 2020, from <https://www.encyclopedia.com/finance/finance-and-accounting-magazines/communication-channels>

13. C

A touchpoint. A touchpoint is any interaction between a business and a customer or potential customer. The sum of the touchpoints that a customer experiences becomes the company's communication of its brand promise to that customer. Advertisements, publicity (unsponsored mentions of the brand or business in the news), and word-of-mouth marketing (what other customers are saying) are all examples of touchpoints that occur before a customer does business with a company. A brand promise is the specific benefit that customers can expect from using the good/service and interacting with the company.

SOURCE: CR:001

SOURCE: LAP-CR-006—Share the Promise (Identifying Brand Promise)

14. B

Customer experience management. Customer experience management (CEM) includes the strategies, processes, and policies a business uses to meet or exceed customer expectations and to provide customers with outstanding experiences at every touchpoint. CEM looks outward, focuses on customer needs and wants, and uses touchpoints to allow the customer to learn something valuable about the company. Customer relationship management (CRM) includes the strategies, processes, technology, and people that a business uses to build, maintain, and maximize the long-term value of customer relationships. CRM tends to look inward, focuses on the business itself, and uses touchpoints to learn something valuable about the customer. Structured customer management and inverse customer management are not types of customer management. Structured relationships are characterized by rules, well-defined positions, and clear lines of authority. Inverse relationships exist when one value in a pair increases when the other decreases.

SOURCE: CR:016

SOURCE: LAP-CR-016—Know When To Hold 'Em (Nature of Customer Relationship Management)

15. D

To help clients make wise investments and prepare for the future. Generally, financial planners help their clients make smart financial choices. More specifically, they assist clients in making wise investments and help clients prepare for the future financially. They also need to make money for their firms, but the client should come first. Financial planners assist clients in buying and selling stocks, but they don't purposefully trade with other planners in the stock market. Financial planners have different responsibilities than compliance agents who are responsible for ensuring that businesses are compliant with government regulations.

SOURCE: CR:012

SOURCE: Investopedia. (2019, December 19). *Should you use a financial advisor?* Retrieved January 17, 2020, from <https://www.investopedia.com/articles/basics/07/financial-advice.asp>

16. D

To establish stronger connections with customers. Customer relationship management (CRM) incorporates the strategies, processes, technology, and people a business uses to build, maintain, and maximize the long-term value of customer relationships. CRM technology provides businesses with information about their customers and helps those businesses establish better relationships with top customers. Although businesses can use CRM technology to make phone calls to customers, archive past sales, and compile mass email lists, those are not the primary purpose of CRM technology.

SOURCE: CR:024

SOURCE: Ferrell, O.C., & Pride, W. (2020) *Marketing 2020*. (20th ed). [pp. 1-6]. Boston, MA: Cengage Learning Inc.

17. A

Maximizing profit. Marginal analysis is an assessment of the potential benefits of a business activity compared to the costs incurred from that same activity. Businesses use marginal analysis to make decisions and maximize profit. Marginal analysis is not directly related to increasing productivity, eliminating mistakes, or maintaining an organization's reputation.

SOURCE: FI:659

SOURCE: Hayes, A. (2019, June 25). *Marginal analysis*. Retrieved January 13, 2020, from <https://www.investopedia.com/terms/m/marginal-analysis.asp>

18. D

The Internet has changed utility. The Internet impacts utility in many ways. One of these is by making it easier for products to have place utility. Online ordering means that customers can get the products they want regardless of their physical distance from the business, as is the case with Valerie and her sweets. This example does not demonstrate that place utility is not important; rather, the use of the Internet has enhanced place utility. This example is not related to form utility. Finally, this example does not demonstrate that utility is constant and unchanging.

SOURCE: EC:004

SOURCE: LAP-EC-013—Use It (Economic Utility)

19. A

The action is acceptable in a foreign culture. What many Americans would consider unethical may be perfectly acceptable in another culture. A major example of this deals with working conditions and wages. In many developing countries, manufacturing standards and pay expectations are much lower than they are in more developed parts of the world. Because of this, some American companies move their operations overseas in an effort to cut costs. These companies are able to pay foreign workers a fraction of the wages they were paying American workers for doing the same work. The company may assume that since its actions are acceptable in the other culture, they are ethical. However, many others may disagree. The company would not say that the action is committed by unethical employees, since that would involve admitting wrongdoing. The action is likely not beneficial for employees. The action could result in a negative public image, but this is not a reason the company can use to defend itself.

SOURCE: EC:106

SOURCE: LAP-EC-106—On the Up and Up (Business Ethics)

20. B

Supporting; assessing. The board of directors is responsible for helping an organization reach its goals while meeting stakeholder needs. This often includes hiring, supporting, and assessing the performance of the organization's top executives. The board of directors does not usually shadow or audit the top executives. While it's possible for members of a board of directors to encourage, promote, and make networking connections for top executives, those are not necessarily responsibilities of the board.

SOURCE: PD:303

SOURCE: Chen, J. (2019, September 27). *Board of directors (B of D)*. Retrieved January 15, 2020, from <https://www.investopedia.com/terms/b/boardofdirectors.asp>



21. A

Cost-push inflation. Inflation can occur when certain commodities become more limited and more expensive, driving up the prices of all related goods and services. This is called cost-push inflation. When OPEC increased the price of oil in the 1970s, the result was an increase in the cost of several other goods and services. This was an example of cost-push inflation. Demand-pull inflation is a different type of inflation in which demand is greater than supply, "pulling" inflation higher. Deflation is a steady decline in the general price levels of goods and services over time. There is no such thing as demand-pull deflation or cost-push deflation.

SOURCE: EC:083

SOURCE: LAP-EC-083—Up, Up, and Away (Inflation)

22. B

Commercial and investment banks. Banks are the biggest traders of currency on the foreign exchange market, making up about half of its trading volume. They often trade with each other exclusively on their own interbank market, a series of electronic networks used only by commercial banking institutions. Banks may use the forex to make transactions for clients or to engage in speculative trading for their own profit. Investment funds are the second biggest traders of currency on the foreign exchange market. Investment funds use the forex to exchange currency when buying or selling foreign securities and to engage in speculative trading on behalf of their clients. Businesses and corporations also participate in the forex. Companies that buy foreign goods and/or sell their goods in foreign markets participate in the forex as a means to complete these business transactions. Individual traders represent the lowest volume of trading on the foreign exchange market, but the practice of speculative trading for personal profit is quickly gaining popularity.

SOURCE: EC:100

SOURCE: LAP-EC-100—Get Your Money's Worth (Exchange Rate)

23. B

A lack of consequences. The threat of punishment is one reason why most people behave properly. If Jackson knows that he will not be caught, he may be tempted to steal merchandise from his employer. Jackson is not dealing with a bad role model, pressure from others, or a desire to prove himself.

SOURCE: EI:124

SOURCE: LAP-EI-124—What's the Situation? (Reasons for Ethical Dilemmas)

24. A

Reading about different cultures. One of the best strategies for acquiring cultural sensitivity is to educate yourself about other cultures. This can be achieved by politely asking a person about their culture, educating yourself through reading or attending cultural events, or attending diversity training workshops. Ignoring cultural differences or pretending they do not exist can have the opposite effect from displaying cultural sensitivity. Rather than asking everyone in the workplace to dress the same, a culturally sensitive workplace would allow each employee to wear his/her culture's garb if s/he desires to do so. Joking about a person's culture does not lead to cultural sensitivity; even if you only joke about your own culture, you may not realize how those jokes can affect others.

SOURCE: EI:033

SOURCE: LAP-EI-033—Getting To Know You (Cultural Sensitivity)

25. B

Increased worker productivity. When people are able to communicate more openly with each other, they will be more productive. Businesses that encourage transparency allow employees to ask questions when they are confused or struggling, which can lead to less wasted time. Transparency also leads to fewer misunderstandings, which can create a more productive work environment. Honesty and transparency should not affect an organization's information security. Being transparent does not mean sharing private or restricted information. Both employee and manager turnover are more likely to be decreased in a transparent work environment than increased. This is because transparency leads to trust among coworkers and between employees and managers. If a person trusts the people s/he works with and for, s/he is less likely to want to change jobs, which results in less turnover, not more.

SOURCE: EI:129

SOURCE: LAP-EI-129—Can We Talk? (Fostering Open, Honest Communication)

26. A

Be willing to adjust your strategy based on the other side's approach. Because people and situations differ, you need to be aware of the other side's negotiating tactics and respond appropriately. You might need to change your strategy during the negotiation process. As long as you have established clear objectives ahead of time, you can adjust your strategy and still negotiate effectively. If you do not have a specific goal or target in mind, it will likely be very difficult to know if you have accomplished what you wanted out of a negotiation. It is always important to keep your emotions out of a negotiation. An outburst could easily derail the conversation and hurt your credibility. Any attempts to “trick” the other side could also affect your credibility, which is one of the most important factors in a negotiation. If the other side does not consider you to be credible or trustworthy, it can be very difficult to have a successful negotiation.

SOURCE: EI:062

SOURCE: LAP-EI-062—Make It a Win-Win (Negotiation in Business)

27. C

Engaging in office politics can be beneficial. Office politics are activities performed by people in a workplace with the intention of furthering their personal or professional goals. These activities exist in almost every workplace environment. While office politics can sometimes be detrimental to the workplace or work relationships, participating in them could also be beneficial. Positive examples of office politics include networking or improving relationships with coworkers or supervisors. Because they exist in almost every workplace, ignoring office politics or trying to avoid or “steer clear” of them might be damaging to career prospects or workplace productivity. Being able to detect office politics might also protect you from being taken advantage of. On the other hand, being seen as too self-serving in the office might hurt your career prospects as well. Finding the right balance of office politics participation can be beneficial to your career, your workplace relationships, and your productivity.

SOURCE: EI:109

SOURCE: Corporate Financial Institute. (2015-2019). *Office politics: Self-serving activities for personal advancement*. Retrieved December 31, 2019, from <https://corporatefinanceinstitute.com/resources/careers/soft-skills/office-politics/>

28. A

In consensus building, every group member must agree on a decision. In both vote taking and consensus building, each group member has the power to say “no” to a possible decision. However, in vote taking, the decision is made by the majority of the group members' votes—even if an individual group member votes against that decision. In consensus building, each group member must agree before a decision is made. In consensus building, although each individual group member has the power to decide that an option should not be selected, no amount of group members gets to make a decision unless the entire group agrees.

SOURCE: EI:011

SOURCE: LAP-EI-019—It's a Group Thing (Consensus Building)

29. D

To confirm the speaker's message and show understanding. By paraphrasing, or restating, what a speaker has said, people who are actively listening can confirm the speaker's message and demonstrate that they understand the speaker. Teaching the speaker to speak more clearly is not a goal of paraphrasing. Paraphrasing what a speaker has said does not necessarily show that listeners agree with the speaker's message. Active listeners pay attention to nonverbal cues, but that is not why they paraphrase the speaker's message.

SOURCE: EI:041

SOURCE: LAP-EI-041—Bring Out the Best (Coaching Others)

30. D

Personal bias. A bias is a prejudice you have either for or against something. Bias isn't always a bad thing, but it can sometimes limit your ability to consider the full impact of your decisions. Because everyone has biases, it is important to acknowledge the ones you have and try to not let those biases impact your decision-making as best as you can. Personal experience can actually help you assess long-term impacts of a decision. If you have been in a situation before, you will know more about what might happen than if you have never been in that situation. Even though personal experience is helpful, it should not be the only thing you consider when assessing long-term impacts. Both positive and negative outcomes should be considered when evaluating the possible long-term impact of a decision.

SOURCE: EI:137

SOURCE: LAP-EI-137—Choose for the Future (Assessing the Long-Term Value and Impact of Actions on Others)

31. B

They are run by professional portfolio managers. Both closed-end funds and open-end funds must be professionally managed by an advisor with registration from the U.S. Securities and Exchange Commission (SEC). Only an open-end fund can issue an unlimited number of shares; closed-end funds issue a fixed number of shares. Closed-end funds are unique because their pricing is determined by supply and demand. Only open-end funds are also known as mutual funds.

SOURCE: FI:336

SOURCE: Chen, J. (2019, July 7). *What is an investment company?* Retrieved January 8, 2020, from <https://www.investopedia.com/terms/i/investmentcompany.asp>

32. C

Secondary market. The secondary market is where investors are able to trade securities after companies have sold their offerings on the primary market. The secondary market is often called the “stock market” and includes the London Stock Exchange, New York Stock Exchange, and Nasdaq. Primary markets are where companies sell securities to the public for the first time. A virtual market is where products are purchased and sold electronically, with no physical interaction between buyer and seller. Tertiary market can refer to a smaller market.

SOURCE: FI:337

SOURCE: Beers, B. (2019, June 25). *A look at primary and secondary markets.* Retrieved January 8, 2020, from <https://www.investopedia.com/investing/primary-and-secondary-markets/>

33. D

Its investments typically involve less risk. The debt market is where participants can buy or sell loans. Compared with the equity market, the debt market is known for having lower risk and lower reward. The equity market is known for having higher risk and reward and being unstable as a result of vulnerability to political, social, and economic events. It is also referred to as the stock market. Dividends are payments made by companies to their shareholders, so they are potential benefits of the equity market, not the debt market.

SOURCE: FI:337

SOURCE: Maverick, J.B. (2019, June 25). *Debt market vs. equity market: What's the difference?* Retrieved January 8, 2020, from <https://www.investopedia.com/ask/answers/071415/what-are-differences-between-debt-and-equity-markets.asp>

34. D

Clashes in corporate culture. When two businesses merge, it is crucial to think about the differences in company culture. Employees are often the essence of a company. If two diverse companies with different philosophies, processes, and experiences merge without proper consideration of and response to these differences, then the consolidation might fail. Eliminating redundancy, diversifying goods and services, and growing market share are all potential benefits of business consolidation, not risks.

SOURCE: FI:573

SOURCE: Taylor, J. (n.d.) *Why do businesses consolidate?* Retrieved January 9, 2020, from <https://smallbusiness.chron.com/businesses-consolidate-5114.html>

35. D

Bancassurance. A bancassurance arrangement is mutually beneficial for banks and insurance companies. Insurance companies are able to sell insurance to the bank's clients, and banks are able to profit from the additional revenue, plus increased customer satisfaction. BATNA stands for Best Alternative to a Negotiated Agreement. Brick-and-click refers to a business with both a brick-and-mortar (physical) store and an online store. Bait-and-switch refers to a form of advertising in which businesses promote a low-priced item to attract customers before trying to sell a higher priced item.

SOURCE: FI:573

SOURCE: Banton, C. (2020, January 7). *Bancassurance*. Retrieved January 9, 2020, from <https://www.investopedia.com/terms/b/bancassurance.asp>

36. C

Purchasing power. When people are unemployed, they don't just lose their income. They also lose the opportunity to purchase and contribute to a country's economy through their purchasing power. While those who are unemployed might lose a sense of individual identity and their connection to corporations, these losses do not impact the economy. Absolute advantage is the advantage achieved when a nation can produce a good or service at a lower cost than another nation.

SOURCE: FI:574

SOURCE: Picardo, E. (2019, June 25). *How the unemployment rate affects everybody*. Retrieved January 9, 2020, from <https://www.investopedia.com/articles/economics/10/unemployment-rate-get-real.asp>

37. D

Could be heavily affected by a domestic market event. Home bias means a preference for investing a majority of a portfolio in domestic equities. This concentration of investments can be risky because a single event in the domestic market can affect a majority of an investment portfolio. A diverse investment portfolio would take advantage of increased financial globalization and be spread across different countries. He is not limited by the markets of foreign countries because he does not invest in foreign markets.

SOURCE: FI:575

SOURCE: Chen, J. (2019, June 7). *Home bias*. Retrieved January 9, 2020, from <https://www.investopedia.com/terms/h/homebias.asp>

38. D

Shareholders. The annual report is a document that reviews a company's activities each year. It contains financial information that must be shared with stakeholders, who have invested in the company, and includes other items like a letter from the chief executive officer, new product plans, and plans for future programming. It is possible that customers, employees, and potential employees see this document because reporting companies must post their annual reports, but they are not the target audience of this document.

SOURCE: FI:274

SOURCE: U.S. Securities and Exchange Commission. (2014, October 15). *Annual report*. Retrieved January 9, 2020, from <https://www.sec.gov/fast-answers/answers-annrephtm.html>

39. C

Unique. A ticker symbol is a unique series of characters, often letters, that represents a security. Because each symbol is assigned to a different security, there cannot be any repetition. The New York Stock Exchange uses alphabetical symbols with up to three letters. The ticker symbol is not an actual graphic and therefore would not be in color.

SOURCE: FI:275

SOURCE: Barone, A. (2019, June 25). *Ticker symbol*. Retrieved January 9, 2020, from <https://www.investopedia.com/terms/t/tickersymbol.asp>

40. C

Bonds. A bond is a low-risk lending investment offered by a government, municipality, or corporation at a set interest rate for a particular period of time. With a bond, you don't pay a penalty if you withdraw the invested amount before the end of the time frame. Other types of lending investments include savings accounts, money market accounts, and certificates of deposit. Stocks, collectibles, and real estate are all types of ownership investments, which provide opportunities for a return by letting you own something of significance.

SOURCE: FI:077

SOURCE: LAP-FI-077—Invest for Success (Types of Investments)

41. D

Engage in professional development. The principle of due care means performing the role of accountant as well as possible. Because of the nature of the profession, accountants need to be competent in all aspects of the job. They must strive for continuous improvement and excellence. Demonstrating due care doesn't mean that accounts have to be perfect—everyone makes mistakes. However, it does mean that accountants must try to do the best job they can. Accountants can pursue the principle of due care by engaging in professional development and dedicating themselves to deepening their accounting knowledge and skills. Serving local communities for free and requesting competitive compensation are not demonstrations of due care.

SOURCE: FI:351

SOURCE: LAP-FI-351—With Due Care (The Role of Ethics in Accounting)

42. A

Loans. Businesses often obtain loans from banks or investors. A thriving business may use loan money to expand its operations. On the other hand, an ailing business might use borrowed money simply to survive. Other sources of cash that flow into a business include sale of assets, interest, sale of products, and startup money. Payroll, taxes, and rent are examples of cash that flow out of a business.

SOURCE: FI:091

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

43. D

Dividends. Dividends are payments made to those who have invested in a company. These payments can be made on a recurring basis or infrequently. Dividends are included on an equity statement, a financial document released as a common component of the annual financial statement. Retained earnings reflect the income the company has chosen to keep. Treasury stock is the number of shares that have been repurchased by the company. Retained earnings and treasury stock are other components that appear on an equity statement, but they do not belong to Jane or other investors. Par value refers to the value of a bond, not an investor.

SOURCE: FI:630

SOURCE: Horton, M. (2017, December 7). *What are the components of shareholders' equity?*Retrieved January 9, 2020, from <https://www.investopedia.com/ask/answers/012115/what-are-components-shareholders-equity.asp>

44. C

Retained earnings. The retained earnings component of an equity statement reflects the income earned and kept by the company. Dividends are payments made to shareholders. If a company decides not to pay dividends, then that money would be considered retained earnings. Outstanding shares and treasury stock are other components of an equity statement, but they are not affected if dividends are not paid.

Cash flow is not a recognized label on an equity statement.

SOURCE: FI:630

SOURCE: Horton, M. (2017, December 7). *What are the components of shareholders' equity?*Retrieved January 9, 2020, from <https://www.investopedia.com/ask/answers/012115/what-are-components-shareholders-equity.asp>

45. C

Accountants record the information that finance managers need to make decisions. The accounting and finance functions have distinct primary focuses and purposes. The accounting function records and generates the information needed to plan and make decisions in the finance function. Accountants do not approve the decisions finance managers make about money. Finance managers do not have total control over what records accountants keep. The acquisition of funds is a main responsibility of a company's finance department.

SOURCE: FI:354

SOURCE: LAP-FI-354—Money Matters (Role of Finance)

46. B

Timing. Out-of-pocket costs are those that must be paid now or in the future, using resources that have yet to be spent. Sunk costs, on the other hand, are those that have already been incurred. Sunk cost refers to money that has already been spent and is unable to be regained. Value, accessibility, and ownership do not represent the difference between out-of-pocket and sunk costs.

SOURCE: FI:658

SOURCE: Tuovila, A. (2019, September 30). *Sunk cost*. Retrieved January 10, 2020, from <https://www.investopedia.com/terms/s/sunkcost.asp>

47. B

Irrelevant costs. Committed costs are those that have already been set aside for a future expense and cannot be altered. Because these costs are already expected and cannot be changed, they are not relevant to business decisions a manager may make. Cash inflow is the money going into a business. Cash receipts are the money that a business collects (e.g., business income).

SOURCE: FI:658

SOURCE: Kenton, W. (2019, October 6). *Irrelevant cost*. Retrieved January 13, 2020, from <https://www.investopedia.com/terms/i/irrelevantcost.asp>

48. A

Marginal analysis. Marginal analysis is a technique used to make financial decisions by comparing the relevant costs of each alternative to determine the difference in cost. The company should perform marginal analysis to see the difference in cost between the two software options. Return on investment, vertical analysis, and sales forecasting would not help the company compare the difference in cost between the two software options.

SOURCE: FI:659

SOURCE: CliffsNotes. (2016). *Introduction to incremental analysis*. Retrieved February 11, 2020, from <https://www.cliffsnotes.com/study-guides/accounting/accounting-principles-ii/incremental-analysis/introduction-to-incremental-analysis>

49. C

Data cleansing helps businesses archive old data. CRM technology provides businesses with information about their customers and helps those businesses establish better relationships with top customers. However, to optimize their use of CRM technology, businesses must cleanse the data in CRM applications. This typically involves identifying and removing inaccurate and/or duplicate data. Businesses also cleanse their CRM data to archive old data. Doing so typically reduces wasted time and shortens sales cycles. CRM software can be built to suit a business's needs, so data caps are not likely a concern.

SOURCE: CR:024

SOURCE: BuzzBoard. (2020). *What is data cleansing*. Retrieved January 20, 2020, from [buzzboard.com/crm-data-cleansing](https://buzzboard.com/crm-data-cleansing)

50. D

Accumulating data on costs and profits. Managerial accountants provide financial information to managers to help managers make informed business decisions. The financial information that managerial accountants provide can vary from manager to manager, but a large part of managerial accounting work is accumulating data on business costs and profits. Preparing financial statements for public review is a responsibility of a financial accountant; managerial accounting is not for external use. Gathering social media trends and calculating risk probability are not accounting activities.

SOURCE: FI:660

SOURCE: Tuovila, A. (2019, October 6). *Managerial accounting*. Retrieved January 13, 2020, from <https://www.investopedia.com/terms/m/managerialaccounting.asp>

51. A

Investigates why that discrepancy occurred. Variance analysis identifies any discrepancies between actual and planned behavior and provides an explanation for why and how that difference happened. This information helps business leaders make decisions and potentially change operations to address any issues; variance analysis itself does not automatically make those changes or suspend activity. Some variation can be expected. Variance analysis helps business leaders maintain control of an organization and does not typically publish discrepancies for external perusal.

SOURCE: FI:661

SOURCE: Bragg, S. (2018, December 21). *Variance analysis*. Retrieved January 13, 2020, from <https://www.accountingtools.com/articles/what-is-variance-analysis.html>

52. C

Variance analysis. Variance analysis provides any discrepancies between actual and planned behavior and an explanation for why and how that difference happened. Focuses of a variance analysis can include material, labor, and overhead as well as purchase price, selling price, etc. Marketing management is a career area in which employees focus on all marketing functions. Performance evaluation is a formal assessment by the supervisor of a worker's job performance that lets the worker know how s/he is doing on the job. A sales report is a comprehensive record of sales activities over a period of time.

SOURCE: FI:661

SOURCE: Bragg, S. (2018, December 21). *Variance analysis*. Retrieved January 13, 2020, from <https://www.accountingtools.com/articles/what-is-variance-analysis.html>

53. B

Management; consider a business's total cost of production. Cost accounting is a form of managerial accounting, which provides financial information to leadership that makes business decisions. It does not typically provide information to external parties, such as stakeholders. Cost accounting considers a company's cost of production, which can include labor, materials, overhead, etc. It does not include advertising costs.

SOURCE: FI:662

SOURCE: Tuovila, A. (2019, September 30.) *Cost accounting*. Retrieved January 14, 2020, from <https://www.investopedia.com/terms/c/cost-accounting.asp>

54. C

Audience. While financial accounting provides financial information to audiences outside of an organization, managerial accounting provides financial information to company leadership that makes business decisions. While it is possible that the scope, arrangement, and quality of provided information may differ between a financial accountant and a managerial accountant, none are the distinguishing factor between the two types of accounting.

SOURCE: FI:657

SOURCE: Tuovila, A. (2019, October 6). *Managerial accounting*. Retrieved January 10, 2020, from <https://www.investopedia.com/terms/m/managerialaccounting.asp>

55. B

Cost allocation. Cost allocation involves splitting up and assigning cost to smaller entities within a business. These smaller entities vary based on the goals and needs of an organization, but they can be split up by headcount, space, labor hours, usage, etc. In this scenario, Tess's business is allocating insurance costs by headcount. Because the department is made of 10% of the company's employees, it pays 10% of the costs. Cost estimate is a ballpark figure (or guess) of how much will be spent on a given activity. Cost per contact is the total cost per interaction with a member of a target audience. Cost-effective means economical—good value in relation to the price or cost.

SOURCE: FI:663

SOURCE: Accounting Tools. (2019, May 4). *Cost allocation*. Retrieved January 14, 2020, from <https://www.accountingtools.com/articles/what-is-cost-allocation.html>

56. B

Well planned. Money is a limited resource. Therefore, when developing a budget, a business must plan how best to support each department and budget category in accomplishing the company's overall goals. This planning process is based on the manager's knowledge, on past budgets, and on external factors, such as economic trends and the level of competition. Instead of rigid, secret, and aggressive, budgets should be flexible, clearly communicated, and realistic.

SOURCE: FI:106

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

57. B

Present value and interest rate. The formula for calculating the future value of money is  $\text{Future Value} = \text{Present Value} \times (1 + \text{Interest Rate})$ . In order to determine the future value of money, you must know the present value and interest rate. Par value refers to the value of a bond. Exchange rate is the value at which one currency can be converted to another.

SOURCE: FI:238

SOURCE: Chen, J. (2019, September 25). *Time value of money (TVM)*. Retrieved January 10, 2020, from <https://www.investopedia.com/terms/t/timevalueofmoney.asp>

58. A

Now. The time value of money explains the idea that money available now is worth more than the identical amount in the future because of its earning potential. If Ajay accepts the money now, it has the potential to earn interest over time. If he accepts the money at any later point (six months, one year, five years, etc.), then Ajay is missing out on the earning potential of the original \$100.

SOURCE: FI:238

SOURCE: Chen, J. (2019, September 25). *Time value of money (TVM)*. Retrieved January 10, 2020, from <https://www.investopedia.com/terms/t/timevalueofmoney.asp>

59. D

Profitability; investors. One of the many reasons to maintain accurate financial information is to demonstrate a business's profitability to potential investors. Investors want to see accurate information and some assurance of profitability before choosing to help finance the company. Financial records are unlikely to demonstrate product benefits or specifications to anyone. Tax collectors may be interested to see financial records, but they are unlikely to be interested in anything involving incentives.

SOURCE: FM:002

SOURCE: Jefferson, L. (2017, August 2). *Are you maintaining accurate records?* Retrieved January 8, 2020, from <https://strategiccco.com/are-you-maintaining-accurate-records/>



60. B

Many financial data are stored in custom, task-specific software and are not easily accessible. Financial-information management involves accessing, processing, maintaining, evaluating, and disseminating financial data to assist in business decision-making, as well as supporting budgeting activities and storing and protecting customer financial information. Challenges for financial-information management include inadequate information, multiple master sources of data, inaccuracies, inefficiencies, and disparate data structures. Unfortunately, many companies house their financial data in custom, task-specific software, making it difficult for others in the organization to access that data if they do not have that specialized software. Financial managers may use Microsoft Office applications to prepare reports, but they don't typically use such software for financial recordkeeping. Financial accountants, not managerial accountants, prepare financial information for use by external stakeholders.

SOURCE: FM:002

SOURCE: Mancini, J. (2018, October 4). *5 startling stats about information management in the financial services industry*. Retrieved February 3, 2020, from <https://www.m-files.com/blog/5-startling-stats-information-management-financial-services-industry/>

61. B

Stock price instability. When a company is accused of unethical accounting practices, investors and shareholders often sell their stock in the company to avoid losing their investment. The resulting rapid drop in stock prices can lead to further instability as more investors begin to sell their shares. Employee loyalty and public faith in the company are likely to drop in event of such an accusation. Shareholders are not incentivized by bad accounting practices, but rather by accurate reporting of profitability.

SOURCE: FM:003

SOURCE: Carty, S. (2020). *What are the advantages of financial accounting ethics?* Retrieved January 8, 2020, from <https://smallbusiness.chron.com/advantages-financial-accounting-ethics-32960.html>

62. C

Calculations can be completed more quickly and efficiently. Technology has improved financial-information management in a number of ways. An important benefit resulting from this technology is faster, more efficient calculations. Although there are added security features of modern-day information management systems, the security of financial information is still very important. Even cloud-based financial management systems are subject to the possibility of hacking. In some ways, the movement of financial information to cloud-based management systems has opened up new possibilities for security breaches. Calculating, comparing, and transferring information have all been greatly improved by recent technological advances in the field of financial-information management. Data does not typically flow from information management systems to point-of-sale systems; the flow of data is usually from point-of-sale systems to information management systems.

SOURCE: FM:011

SOURCE: Dlabay, L., Burrow, J.L., & Kleindl, B. (2019). *Principles of business* (9th ed.) [Lesson 12.2]. Boston, MA: Cengage Learning, Inc.

63. B

Total revenues, total costs, and profits. The basic budgeting equation is Total Revenues - Total Costs = Profit. The total costs identified in this equation include all costs and expenses. Total revenues include all sales revenues from all sources. Profit is the difference between the two. Fixed, variable, and semi-variable costs are the three main types of costs that combine to make total costs. Inventory is not a basic component in budgeting, although aspects involving inventory do appear in a budget. Fixed assets and investments are important aspects of accounting and therefore do impact budgets, but they are not among the basic components of a business budget.

SOURCE: FM:013

SOURCE: Inc.com Encyclopedia. (n.d.) *How to start a business budget*. Retrieved January 8, 2020, from <https://www.inc.com/encyclopedia/businessbudget.html>

64. B

Horizontal analysis. Horizontal analyses compare the information from a single company's income statements over multiple years. This allows analysts to determine trends and make forecasts for future performance. Vertical analyses are used in comparing companies within the same industry, even companies of vastly different sizes. This is because a vertical analysis of an income statement results in the calculation of multiple ratios, which are more easily compared across multiple companies of different sizes than are dollars. Leverage analyses are effective at determining company performance by resulting in a debt-to-equity ratio. These are typically performed with income statement information for a single year. Liquidity analyses are performed with information from a company's balance sheet to determine if a company is able to meet its short-term debts.

SOURCE: FM:014

SOURCE: Corporate Finance Institute. (2020). *Types of financial analysis*. Retrieved January 8, 2020, from <https://corporatefinanceinstitute.com/resources/knowledge/finance/types-of-financial-analysis/>

65. B

To assess the level of risk involved in investing in the company. The debt-to-equity (D/E) ratio measures the degree to which a company has financed its activities through debt as opposed to using shareholder equity in the company. Typically, a high D/E ratio suggests that the company is a higher risk for investors because a lot of the financing has been done through borrowing. The D/E ratio is a particularly poor metric for evaluating companies in different industries as standard D/E ratios differ by industry. Other metrics are also better for comparing current and past performance, such as horizontal analyses. The ability of a company to hire more employees could not be determined from its D/E ratio.

SOURCE: FM:014

SOURCE: Hayes, A. (2019, June 13). *Debt-to-equity ratio - d/e*. Retrieved January 9, 2020, from <https://www.investopedia.com/terms/d/debtequityratio.asp>

66. B

Liability. Unlike traditional accounting, in which inventory is considered an asset, lean accounting treats inventory as a liability because having an inventory requires labor, storage, and other expenses. Inventory is viewed as an asset in traditional accounting methods because it is a value *owned* and not *owed*. Inventory cannot be considered a revenue until it is sold and ceases to be inventory. Equity refers to the amount of value that a shareholder has invested in a business.

SOURCE: FM:016

SOURCE: Antony, D. (2020). *Benefits of lean accounting in a lean manufacturing company*. Retrieved January 9, 2020, from <https://smallbusiness.chron.com/benefits-lean-accounting-lean-manufacturing-company-4924.html>

67. A

Determine whether a customer is worthy of purchasing on trade credit. Many business-to-business transactions are financed using trade credit, which simplifies the sales process. However, not all companies are able to repay their creditors for the products they purchase on credit. Before offering another business the opportunity to purchase on credit, it is important to do the research necessary to ensure that the company is likely to be able to pay. One strategy for helping to make this judgement is to collect references. Also, as is the case with individuals, companies have credit scores which indicate their level of creditworthiness. Finally, financial ratios can give some insight into whether the company's finances are strong enough that it will be in a position to pay its debts. While many of these methods are used by potential investors to determine if a company is worth the investment, they are not as useful in determining which investors a company should turn to. Financial managers calculate financial ratios to help them make decisions about their own companies, but they are not likely to contact references or obtain their own credit score in order to do so.

SOURCE: FM:009

SOURCE: Fowler, S. (2017, September 26). *How to analyze customer credit worthiness*. Retrieved January 9, 2020, from <https://bizfluent.com/how-8543910-analyze-customer-credit-worthiness.html>

68. B

Has the resources to pay its short-term debts. Liquidity ratios measure a company's ability to turn its short-term assets into enough cash to cover its short-term liabilities (amounts the company owes in the short term). Companies with low liquidity ratios are likely to encounter problems paying short-term debts like purchases made on credit. Profitability ratios help evaluate the company's ability to control its expenses to the point where profit can be generated. Long-term success and the likely return on investment can be assessed through a variety of methods, but neither necessarily involve liquidity ratios.

SOURCE: FM:009

SOURCE: Avenir, R. (2020). *The effects of liquidity ratios*. Retrieved January 9, 2020, from <https://smallbusiness.chron.com/effects-liquidity-ratios-57308.html>

69. C

Improve customer satisfaction. When a company improves its response time to customer complaints, it also improves customer satisfaction. Responding to customer complaints does not help a company develop new goods and services or achieve stability. Companies desiring to improve profitability typically focus on increasing sales, reducing costs, and improving efficiency.

SOURCE: MK:015

SOURCE: LAP-MK-015—Act Now! (Employee Actions and Company Goals)

70. D

Detect the possibility of fraud. Benford's Law explores the distribution of digits in a large, randomly generated set of natural numbers. In this data set, the most frequent leading digit is 1, followed by 2, 3, 4, etc., exponentially decreasing until the least frequent leading digit, 9. When applied to data analytics and financial statements, this law helps identify possible deviations from this pattern, which could indicate fraudulently manufactured numbers. Benford's Law does not directly find opportunities for profit, identify personnel issues, or estimate business viability.

SOURCE: NF:124

SOURCE: Sarkar, T. (2018, October 25). *What is Benford's Law and why is it important for data science?* Retrieved January 14, 2020, from <https://towardsdatascience.com/what-is-benford-s-law-and-why-is-it-important-for-data-science-312cb8b61048>

71. C

Prescriptive analytics recommend specific courses of action. Descriptive analytics use existing data to provide descriptions of the past. Predictive analytics, on the other hand, use existing, past data to predict a variety of possible futures. These descriptions of possible futures, however, cannot themselves arrive at a recommended decision. Since data analytics in business are often utilized to aid in decision-making, predictive analytics have limits in their applicability to decision-making. Where predictive analytics offer a forecast for the future, they do not recommend a specific course of action. Instead, predictive analytics can be combined with a rule or set of constraints to become prescriptive analytics, which take predictive analytics a step further by providing the rule and set of constraints. In this way, they limit the number of "possible futures" down to those that are most likely to result in the preferred outcomes. In this way, prescriptive analytics aid in decision-making by suggesting which decision is likely to be best.

SOURCE: NF:139

SOURCE: Camm, J.D., Cochran, J.J., Fry, M.J., Ohlmann, J.W., Anderson, D.R., Sweeney, D.J., & Williams, T.A. (2019). *Business analytics* (3rd ed.) [Lesson 1.3]. Boston, MA: Cengage Learning, Inc.

72. D

Cluster analysis. Cluster analysis is intended to group data points into groups or clusters. The goal here is to allow observable data to naturally collect into groups that are largely homogenous, share a set of characteristics, and are unlike the data in other groups or clusters. These clusters, when used to sort consumers, create market segments that can be targeted with marketing. Market basket analysis focuses on establishing links between data points that tend to occur together. This is often used in determining which items tend to be purchased (placed in a “market basket” together). Prediction analyses, such as regression analysis, involves using independent or predictor variables to anticipate a response of dependent variable. Forecasting analysis seeks to make predictions about specific time periods based on historical observations and other considerations.

SOURCE: NF:148

SOURCE: Camm, J.D., Cochran, J.J., Fry, M.J., Ohlmann, J.W., Anderson, D.R., Sweeney, D.J., & Williams, T.A. (2019). *Business analytics* (3rd ed.) [Lesson 4.1]. Boston, MA: Cengage Learning, Inc.

73. A

Tax records. For tax purposes, businesses must record everything they pay their employees and the deductions that are made, including withholdings. Companies also keep track of their assets such as furniture and equipment. These asset records allow companies to track the depreciation of their assets for accounting purposes. Customer records include clients' names, addresses, contact information, and possibly information about purchases made by the customer. Legal records include items such as contracts and agreements, intellectual property records, and work orders.

SOURCE: NF:001

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

74. D

Government. Governments can have an important impact on any organization. One of the ways they can do so is through regulation. For example, a company that is considering whether to buy or construct a new building would need to consider zoning regulations. Likewise, a company that is involved in manufacturing might be required to adhere to regulations involving emissions or product safety. A business's competitors would also need to adhere to regulations. Technology may involve regulations, but these factors are unlikely to affect the ways in which technology is handled in an environmental scan. Demographics would not involve regulations.

SOURCE: NF:015

SOURCE: LAP-NF-015—Get the 4-1-1 (Conducting an Environmental Scan)

75. B

Inventory control. Inventory control involves tracking the amount, kind, and value of the items that a business possesses. This involves maximizing the amount of inventory to the point where there is no risk of stockout costs (costs associated with running out of inventory) while limiting holding costs (the costs associated with keeping inventory in stock) to a minimum. Quality control involves ensuring that a product meets a degree of excellence. Scheduling involves establishing a timeline to be followed in the production of a product. Logistics involves managing the flow of products from production to consumption.

SOURCE: OP:189

SOURCE: LAP-OP-189—Smooth Operations (Nature of Operations)

76. C

Integrity. Data integrity involves the wholeness or completeness of data and information. A breach of data integrity is sometimes referred to as data corruption. Corruption may be the result of an attack, but it may also occur at various points during the entering, storing, or transmitting of information. Data confidentiality is threatened when unauthorized users gain access to the data. Confidentiality is related to data privacy, although data privacy also involves the intended use of specific types of data. Data availability refers to the usability or the delivery format of data.

SOURCE: OP:064

SOURCE: Whitman, M.S., & Mattord, H.J. (2019). *Management of information Security* (6th ed.) [Lesson 1-1b]. Boston, MA: Cengage Learning, Inc.

77. C

Pooled. Pooled interdependence is the lowest form of interdependence in which departments operate with little to no interaction. Departments in this organizational structure may impact each other's operations at the highest level of organizational budget, success, or failure but do not generally interact beyond that. Sequential interdependence refers to an organizational structure in which one department relies on the work completed by another department. One way to think of this type of interdependence is as though departments perform tasks in an assembly-line relationship in which the output from one department becomes the input for the next. Reciprocal interdependence is the most complex form of interdependence. Reciprocal interdependence occurs when tasks flow both ways between departments. Information that is taken in by one department is processed and shared with others, which is in turn processed and shared back. Each department's functioning depends on the functioning of the others. Mutual interdependence is not a major form of organizational interdependence.

SOURCE: OP:196

SOURCE: Griffin, R.W. (2018). *Fundamentals of management* (8th ed.) [Lesson 6-1e]. Boston, MA: Cengage Learning, Inc.

78. C

Erin spent an hour selecting fonts when she should have been practicing her speech. Monitoring a project's scope is important because it helps you stay on task and do the work you are supposed to be doing, rather than getting distracted by unimportant tasks. Erin needs to monitor the scope of her project because she is spending too much time on a task that she did not need to do. Zander is monitoring budget. Mateo is monitoring people. Finally, Bethany is monitoring schedule.

SOURCE: OP:520

SOURCE: LAP-OP-520—Check Your (Project) Pulse (Monitoring Projects and Taking Corrective Actions)

79. C

Fixed; semi-variable. Fixed costs do not increase or decrease based on changes in production. Variable costs fluctuate based on changes in production. Semi-variable costs are those in which part of the cost does not change and part of the cost does. If a company pays its workers a set wage and its employees work a set 40-hour work week, then those wages are fixed costs. If, however, workers are asked to work overtime, their regular wage remains the same. However, the amount of overtime paid to the employees will change based on the amount of overtime hours worked. The combination of a fixed cost with a variable cost is called a semi-variable cost. Semi-fixed cost is another name for semi-variable cost.

SOURCE: OP:024

SOURCE: LAP-OP-009—Watch Your (Over) Head (Overhead/Operating Costs)

80. C

Employees. Employees are ultimately responsible for making sure that they maintain an appropriate work-life balance. While there is no perfect balance, this might include setting boundaries, unplugging from company technology at predetermined times, and taking breaks as needed. While employers can help with work-life balance, they are not responsible for ensuring employees maintain this balance. Coworkers and customers do not have control over the work-life balance that employees maintain.

SOURCE: PD:179

SOURCE: Schooley, S. (2019, June 19). *8 ways to improve your work-life balance today*. Retrieved January 14, 2020, from <https://www.businessnewsdaily.com/5244-improve-work-life-balance-today.html>

81. B

Innovation. Innovation is the development of something new, such as a new product, method, strategy, or process. Innovation can also involve an improvement of something that already exists. Adding automation to an assembly line is an example of innovation because the automation is likely to improve the efficiency of the assembly line process. An invention involves creating something entirely new that did not exist prior to the invention. Creativity, which can be a part of developing innovative ideas, is the ability to generate unique ideas, approaches, and solutions. People with problem-solving skills are often able to innovate and find solutions to obstacles in their path.

SOURCE: PD:126

SOURCE: LAP-PD-126—Ideas in Action (Innovation Skills)

82. B  
Business information management. An employee making sure that business initiatives and computer/IT processes work smoothly together is working in the area of business information management. Business information management is an umbrella term covering those careers that provide a bridge between business processes/initiatives and IT (information technology). Employees in this area help align business and IT goals. Employees working in accounting collect, analyze, organize, and report accounting information. Employees working in operations management focus on planning, organizing, coordinating, and controlling the resources needed to produce/provide a business's goods and/or services. Employees working in securities and investments typically work in brokerage firms, investment banks, and stock exchanges to support the flow of funds from investors to companies and institutions.  
SOURCE: PD:025  
SOURCE: LAP-PD-025—Go for It! (Careers in Business)
83. C  
Accountant. An accountant records, classifies, summarizes, analyzes, and communicates a business's financial information and business transactions for use in decision-making. A bank manager runs and operates a bank, while a compliance analyst may analyze financial records to make sure they are in accordance with legal requirements. A compliance analyst would not necessarily prepare financial records. An insurance agent sells insurance and does not typically prepare and examine financial records.  
SOURCE: PD:152  
SOURCE: LAP-PD-020—Career Opportunities in Finance
84. C  
Financial analyst. Careers in corporate finance such as financial analysts, cash managers, and capital expenditure managers typically focus on finding money for a company and then making sure that the money is managed correctly. This involves the implementation of capital structure, budgeting and financial planning, acquisition and investment, funding, dividends, and taxation policies and decisions. A mutual fund manager oversees a bundle of funds and is responsible for investing those funds to maximum profit for investors. An insurance agent is someone who sells insurance that transfers risk from an individual or business to an insurance company. A financial accountant records, classifies, summarizes, and communicates a business's financial information to external stakeholders.  
SOURCE: PD:152  
SOURCE: LAP-PD-020—Career Opportunities in Finance
85. B  
Good corporate governance. Corporate governance is the combined set of rules, practices, and processes by which an organization is managed. Benefits of effective corporate governance include fewer incidents of misconduct, smoother day-to-day operations, and better relationships with stakeholders. This example demonstrates how adherence to corporate governance policies can benefit an organization. Ethics training, public relations initiatives, and SMART goals can also benefit companies, but they are not demonstrated in this example.  
SOURCE: PD:213  
SOURCE: Chen, J. (2019, April 18). *Corporate governance definition*. Retrieved January 23, 2020, from <https://www.investopedia.com/terms/c/corporategovernance.asp>
86. C  
Satisfaction. Involving employees in business decisions often leads to increased job satisfaction and investment in the company, as employees see that their ideas are heard and valued. While not all decisions require employee consultation, it is often to the benefit of the company that it take advantage of employee involvement. It is less likely or not likely at all that employee involvement would lead to employee burnout, sales, or relocation.  
SOURCE: PD:301  
SOURCE: Heathfield, S.M. (2019, July 26). *What does employee involvement actually look like?* Retrieved January 14, 2020, from <https://www.thebalancecareers.com/employee-involvement-1918100>

87. A

Transparency. When a business is transparent, it means it maintains open and truthful communications. If a business is transparent about company goals, values, and strategies, employees are better able to understand their roles within the greater organization. The public also views the organization more positively, because secretive businesses are sometimes viewed with suspicion or skepticism. Efficiency, flexibility, and anonymity neither help employees better understand their roles nor encourage positive public impression.

SOURCE: PD:214

SOURCE: Mack, S. (2019, March 8). *Seven characteristics of good corporate governance*. Retrieved January 15, 2020, from <https://smallbusiness.chron.com/seven-characteristics-good-corporate-governance-57207.html>

88. A

Regulations. Governance reports detail activities completed and efforts taken by companies to make sure their business operations are compliant with regulations. If regulations change, then governance reports help business document any necessary changes and their response to these changes. While personnel, the economy, and technology can and do change frequently, they are not related to governance reports and compliance with business regulations.

SOURCE: PD:214

SOURCE: Price, N.J. (2019, January 19). *How to improve governance reporting*. Retrieved January 15, 2020, from <https://insights.diligent.com/entity-governance/how-to-improve-governance-reporting>

89. C

Board of directors. Corporate governance includes the controls, policies, and guidelines needed to reach organizational goals while meeting stakeholders' needs. While many people are affected by corporate governance structures, the board of directors is the primary influence on corporate governance. The board is selected by shareholders and has the responsibility of making important decisions for the business. Shareholders, the chief financial officer (and most other executives), and the HR director do not hold greater influence than the board on a company's corporate governance.

SOURCE: PD:302

SOURCE: Chen, J. (2019, April 18). *Corporate governance definition*. Retrieved January 14, 2020, from <https://www.investopedia.com/terms/c/corporategovernance.asp>

90. C

Limits to economic freedom. People in a private enterprise system are limited by their own choices. Bailey has a finite amount of money to spend (\$50), so she cannot purchase everything she wants. She has to choose whether she wants jeans or concert tickets. This is not an example of competition in the market place, governmental control, or private property.

SOURCE: EC:009

SOURCE: LAP-EC-015—People Power (The Private Enterprise System)

91. C

To obtain professional development. Professional organizations and associations exist to help their members succeed. They provide support to their members, help in networking efforts, create opportunities to discuss best practices and job opportunities with others in the field, and hold professional development events to help members grow their skills and knowledge. Professional organizations usually require their members to pay membership dues. Financial advisors who are active in their professional organizations may find that organizational duties take time that they could have used for their regular work responsibilities. Finance professionals don't often join organizations to increase their work responsibilities.

SOURCE: PD:153

SOURCE: Cussen, M. (2019, October 10). *Four professional associations financial advisors should join*. Retrieved January 20, 2020, from <https://www.investopedia.com/articles/financial-advisors/121515/4-professional-associations-advisors-should-join.asp>

92. B  
Networking. Networking involves exchanging information with others for the purpose of professional or business development or advancement. Problem solving involves finding solutions to obstacles or problems. Advertising is any paid form of nonpersonal presentation of ideas, images, goods, or services. Co-branding is a brand strategy that involves businesses joining forces for mutual benefit to increase brand recognition, customer loyalty, and sales for both brands. There is no indication that Maria and Laura demonstrated problem solving, advertising, or co-branding in the situation.  
SOURCE: PD:153  
SOURCE: McQuerrey L. (n.d.) *Fundamentals of business networking*. Retrieved January 20, 2020, from <https://smallbusiness.chron.com/fundamentals-business-networking-39401.html>
93. A  
Code of conduct. A code of conduct is a set of rules and standards that govern the expected practices, decisions, procedures, and systems within an organization. Codes of conduct typically address topics such as conflicts of interest, harassment, discrimination, use of property, confidentiality, etc. An operating statement, also known as an income statement, summarizes a business's income and expenses over a period of time. An annual report is a document outlining the financial status of a business. A mission statement is a brief summary of what a business owner wants a business to be doing.  
SOURCE: PD:251  
SOURCE: LAP-PD-251—Know the Code (Following Rules of Conduct)
94. B  
Give employees a way to voice concerns. Transparency includes maintaining honest and open communications. It means that everyone is informed about what is going on and has a way to express him/herself. One important aspect of transparency is giving everyone the opportunity to voice concerns without the fear of consequences. This means that employees have a safe way to report ethical issues, which reduces risk. Offering rewards based on job performance, carefully monitoring employees' resource use, and guarding against digital security threats are not related to transparency.  
SOURCE: RM:041  
SOURCE: LAP-RM-041—Manage Risk the Right Way (Ethics in Risk Management)
95. A  
Employee dissatisfaction. Managers have an ethical responsibility to make a workplace comfortable for employees. As a result, even though the odor won't hurt his staff, Johnny has an obligation to mitigate or eliminate the smell if it bothers employees. Dissatisfied employees can be the source of a number of risks for an organization. Workers may choose to leave for another job, costing time and money in hiring and training new employees. Current and former employees' actions and any information that they share could also affect the company's reputation. Company bankruptcy is unlikely to occur as a direct result of a minor workplace discomfort. Conflicts of interest among employees would not be directly related to workplace discomfort. It is unclear what kind of company insurance would result from the issue of an environmental odor.  
SOURCE: RM:041  
SOURCE: LAP-RM-041—Manage Risk the Right Way (Ethics in Risk Management)
96. C  
Cloud-based storage systems make confidential information vulnerable to a privacy breach. The move to cost- and labor-saving cloud-based storage systems can mean a better solution for data storage but has the potential to bring other risks and vulnerabilities into a risk management system. Even though cloud-based systems are routinely updated with new security protections, there will always be the possibility of a data breach. There is no system that is completely free of potential vulnerabilities. Even non-cloud based systems will likely require contracting with a third-party IT company, which can also leave confidential information vulnerable. The newest software in risk management not only increases the speed at which information can be processed but also increases the efficiency and adaptability of risk management systems.  
SOURCE: RM:042  
SOURCE: Fadlallah, H. (2018, November 7). *How information technologies influenced risk management*. Retrieved January 13, 2020, from <https://towardsdatascience.com/how-information-technologies-influenced-risk-management-7eb3a38d253>



97. C

Captive. A captive insurance company is one that is wholly owned by a parent company and is a form of self-insurance. The parent company is able to pay its premiums to its own captive insurer to protect the company against particular forms of risk. There are a number of reasons that a company may form its own captive insurer, many of which are focused on lowering the costs of risk management. Professional liability insurance protects businesses against claims of negligence. While it may be covered by a captive insurer, it is most often covered by a third-party insurer. Medical malpractice insurance is a form of professional liability insurance. Compulsory insurance is a term for any type of insurance that is required by law.

SOURCE: RM:043

SOURCE: Kagan, J. (2019, June 25). *Captive insurance company*. Retrieved January 13, 2020, from <https://www.investopedia.com/terms/c/captive-insurance-company.asp>

98. B

Separation. Separation involves spreading a company's important assets across multiple geographic locations so an event at one location will not affect the operations at other locations. Avoidance involves choosing not to do something that is considered risky. Loss prevention and loss reduction involve accepting the risk and limiting the damage done by it.

SOURCE: RM:058

SOURCE: Kenton, W. (2019, August 12). *Risk control*. Retrieved January 9, 2020, from <https://www.investopedia.com/terms/r/risk-control.asp>

99. A

Enterprise risk management. Enterprise risk management is a business strategy that involves identifying, assessing, and preparing for any potential dangers or hazards. Enterprise risk management also involves making the company's plan of action available to stakeholders. In this example, Antonia is engaging in enterprise risk management—not business objective planning, organizational goal setting, or preliminary quality management.

SOURCE: RM:062

SOURCE: Kenton, W. (2019, July 2). *Enterprise risk management (ERM)*. Retrieved January 23, 2020, from <https://www.investopedia.com/terms/e/enterprise-risk-management.asp>

100. D

Business failure. While many risks that business face are insurable—including property damage, employee health, and customer injury—uninsurable risks also exist. Most reputational risks, regulatory risks, trade secret risks, political risks, and pandemic risks are uninsurable, as is the risk of business failure. There is no insurance available to protect your business against bankruptcy; however, there is insurance available to cover financial losses (caused by customer injuries, product recalls, etc.) that might lead to business failure and bankruptcy.

SOURCE: RM:062

SOURCE: Kagan J. (2018, January 17). *Uninsurable risk*. Retrieved January 10, 2020, from <https://www.investopedia.com/terms/u/uninsurable-risk.asp>