

Finance Cluster Exam

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1. A
Ability to pay. The relationship between a creditor and a debtor is usually based on the debtor's ability to pay the creditor the amount that is owed. Businesses offer credit to increase sales; however, they expect customers to repay the debt. Therefore, creditors usually base their decision to offer credit to those who they believe have the ability to pay. Creditors establish a billing schedule and pricing method. They also determine the type of account to offer debtors. These factors do not influence the relationship.
SOURCE: BL:071
SOURCE: Longenecker, J.G., Moore, C.W., & Petty, J.W. (2003). *Small business management: An entrepreneurial emphasis* (12th ed.) [pp. 412-413]. Cincinnati: Thomson/South-Western.
2. A
Sole proprietorship. Other advantages of a sole proprietorship are that it is easy to start, it has certain tax advantages, and the details of the business can be kept private. In a partnership, the profits are divided among the partners who sometimes disagree as to how profits should be divided. In a corporation, the profits are divided among the stockholders. The officers of the corporation are responsible for the actual operation and management of the firm. A joint venture is an arrangement that involves two or more businesses entering into a relationship by combining complementary resources, such as technology, skills, capital, or distribution channels, for the benefit of all parties.
SOURCE: BL:003
SOURCE: BL LAP 1—Own It Your Way (Types of Business Ownership)
3. B
A senior manager tells a stakeholder that the government did not approve a new product because it did not meet safety standards. When a group of people have access to non-public information (material information) and make trades based on this knowledge, they have an unfair advantage over others. If the insider (senior manager) gives this information to others (stakeholders) so they can make trades based on the knowledge, both parties could be prosecuted for insider trading. In the example, the company's stock values are likely to be affected by the problems with a new product. When an employee shares material information with a person outside the company and who can act on the knowledge before it is revealed to the general public, it is an example of illegal insider trading. On the other hand, officers and board members of a company who buy or sell their own company's securities, and report the trades to the SEC, are not conducting illegal insider trading activities. Advising customers about mortgage rates, giving financial advice to a client, and providing an auditor with the company's material or financial information are not examples of insider trading.
SOURCE: BL:133
SOURCE: Reh, F.J. (2010). *Insider trading*. Retrieved September 24, 2010, from <http://management.about.com/cs/businessethics/a/InsiderTrade702.htm>
4. D
Oversees the registration process for initial public offerings (IPOs). The SEC is the administrative agency that enforces securities regulations. The SEC works to ensure public companies fully disclose their financial information to investors and to protect the public from fraudulent activities related to the securities market. One function of the SEC is to oversee the registration process for corporations when they first offer stock to the public, which is called initial public offerings or IPOs. The SEC does not distribute dividends or sell securities. The Public Company Accounting Oversight Board oversees the auditing processes of the public corporations' financial statements.
SOURCE: BL:133
SOURCE: Mayo, H.B. (2007). *Basic finance: An introduction to financial institutions, investments, & management* (9th ed.) [pp. 26-31]. Mason, OH: South-Western Cengage Learning.
5. A
Five-carat diamond ring. A luxury tax is levied on expensive, nonessential items such as luxury cars, valuable artwork, and expensive jewelry. A used mini van, a wool coat, and a laptop computer are not considered expensive, nonessential items.
SOURCE: BL:134
SOURCE: Goettel, D., & Harris, B. (2010, September 8). *What is a luxury tax?* Retrieved September 24, 2010, from <http://www.wisegeek.com/what-is-a-luxury-tax.htm>

6. A

Corrective. Corrective controls are initiatives taken to fix a problem that has already been detected. Hiring a compliance officer to monitor financial processes is a corrective action because someone had already detected data inconsistencies. Preventative controls involve actions to keep something from happening before it occurs. Product controls are activities the business uses to manage the processes, quality, and quantity of goods and services. Conditional controls allow certain actions to occur within a specific set of circumstances.

SOURCE: CC:003

SOURCE: *Internal controls: Notes 2.* (n.d.). Retrieved October 5, 2010, from http://intraweb.stockton.edu/eyos/internal_audit/content/docs/icnote2.pdf

7. D

Detect compliance inconsistencies across different jurisdictions. Businesses use compliance software to aid them in detecting financial transaction problems. Because interstate and international commerce involves following different regulations in different locations, advanced compliance technologies can scan or audit the data to ensure their compliance with different jurisdictions' regulations and rules. The purpose of compliance software is not to evaluate a competitor's compliance, correct human-resource problems, or improve product quality and satisfaction levels.

SOURCE: CC:004

SOURCE: ComplianceEase. (n.d.). *ComplianceAnalyzer: Automated compliance solutions.* Retrieved October 12, 2010, from http://www.complianceease.com/mainsite/prod/prod_ca_overview.jsp?content=/opencms/CEContent/prod/prod_ca_overview_m.jsp&right=/opencms/CEContent/prod/r_critical_decision.jspn

8. C

To identify similar transactions. Comparative reasoning identifies and compares similar transactions and information. By identifying similarities in transactions, the business can conduct further research to determine if or how the transactions are related and if a problem exists, such as a single transaction having multiple entries. The temporal reasoning process evaluates the timing of financial transactions. Contextual reasoning is used to consider each financial transaction's circumstances and how it compares to historical patterns in the system. Businesses do not use comparative-reasoning processes to boost data storage systems.

SOURCE: CC:004

SOURCE: Oversight Systems, Inc. (n.d.). *IT's role in financial process improvements.* Retrieved October 12, 2010, from http://www.oversightsystems.com/whitepapers/IT_4_biz_improvement_060725.pdf

9. B

Listening. In order to carry out their supervisors' instructions satisfactorily, employees must understand those instructions correctly. This means that active listening is a necessary skill. Good speaking skills are also important in business but not as important to carrying out instructions as listening well. Giving feedback, or expressing an opinion, is not always a job requirement. Using the grapevine would involve circulating information that the business has not formally announced.

SOURCE: CO:119

SOURCE: Clark, B., Sobel, J., & Basteri, C.G. (2006). *Marketing dynamics* (pp. 671-672). Tinley Park, IL: Goodheart-Willcox.

10. B

Let the speaker know that the message has been received and understood. Active listening is primarily about understanding a speaker's meaning, not about communicating your agreement or voicing your own opinion. Active listening can help to make boring lectures more interesting, but that is not its purpose.

SOURCE: CO:017

SOURCE: QS LAP 1—Listen Up (Active Listening)

11. C
Tone of voice can be used to express emotions and thoughts. This means that people can show their interest and enthusiasm by what they say and by the way they say it. Although body language conveys intent, people can communicate how they feel through their choice of words. The words that people use often express their interest and enthusiasm. A key element of verbal communication is listening.
SOURCE: CO:147
SOURCE: Miculka, J. (2007). *Speaking for success* (2nd ed.) [pp. 35, 155]. Mason, OH: Thomson South-Western.
12. D
To make the message more convincing. Messages usually are more persuasive if they are supported by logical evidence. Logical evidence is based on fact rather than on opinion. If businesses are writing persuasive messages to encourage customers to do something, such as buy a product, they should include logical evidence to make the message more convincing. Logical evidence is factual, however, it may not be interesting. Strong language may offend the recipient rather than help to explain the idea. Logical evidence is intended to be persuasive. It does not force the recipient to respond.
SOURCE: CO:031
SOURCE: Bovée, C.L., & Thill, J.V. (2008). *Business communication today* (9th ed.) [pp. 302-303]. Upper Saddle River, NJ: Pearson Prentice Hall.
13. D
Handwritten signature. Some memos are signed, but a memorandum usually has the name of the sender typed rather than written. The sender may write his/her initials next to the typed name. A date and a businesslike tone are appropriate in all memorandums. The subject is identified in the heading of the memo.
SOURCE: CO:094
SOURCE: Locker, K.O. (2006). *Business and administrative communication* (7th ed.) [pp. 582, 584]. Boston: Irwin/McGraw-Hill.
14. A
Current salary. Certain information is considered personal and confidential and should not be shared with coworkers. An employee's salary is confidential information between the business and the employee and should not be divulged to others. Inventory policy, promotional ideas, and operating hours are types of information that usually are available to all employees.
SOURCE: CO:014
SOURCE: Kimbrell, G., & Vineyard, B.S. (2006). *Succeeding in the world of work* (p. 185). New York: Glencoe/McGraw-Hill.
15. A
People. The most important factor in a business's customer relations is its people. Employees "make or break" a business's efforts to build positive relations with customers. Business processes, business environment, and technology are also factors affecting a business's customer relations, but they are not as important as the human factor.
SOURCE: CR:003
SOURCE: CR LAP 1—Accentuate the Positive (Nature of Customer Relations)
16. A
Domineering/Superior. Domineering/Superior customers should be made to feel important and in charge which will help them to convince or sell themselves. Disagreeable customers are often surprised and calmed by salespeople who are composed, courteous, and efficient. Slow/Methodical customers may need more action on the salesperson's part in order to close within a reasonable period of time. Suspicious customers will often be your customer for life if you can gain their confidence and trust.
SOURCE: CR:009
SOURCE: CR LAP 3—Making Mad Glad (Handling Difficult Customers)

17. A
Telling her customers about banking products. As a bank teller, Jana processes the customers' bank transactions and often tells them about the bank's products, such as credit cards, club accounts, and savings bonds. Certified finance professionals (financial planners) manage business retirement funds, and authorized stockbrokers trade commodities on behalf of their clients. Processing payroll for other businesses is beyond the scope of a teller's responsibilities.
SOURCE: CR:012
SOURCE: American Bankers Association (2005). *Today's teller: Developing basic skills* (p. 182). Washington: Author.
18. B
Certified Public Accountant. Accountants are responsible for collecting and preparing financial information. To ensure that corporations are in compliance with government reporting requirements, many certified public accountants (CPAs) prepare tax returns and conduct audits for corporations. Stockbrokers buy and sell securities, insurance agents sell insurance policies, and financial advisors help individuals and businesses grow their wealth through saving and investing.
SOURCE: CR:012
SOURCE: Education Portal. (2003-2010). *Certified public accountant career info, job duties, and employment options*. Retrieved October 5, 2010, from http://education-portal.com/certified_public_accountant.html
19. B
Data warehousing. Data warehousing involves combining data from a variety of internal and external sources into one large database. A business can access current and historic data from a data warehouse to identify and monitor customer buying behavior, trends, etc. Businesses use project management computer applications to track resources and activities for short- and long-term projects. Electronic data interchange systems transmit sales and ordering information among a business and its suppliers. Data acquired from an electronic data interchange can be stored in a data warehouse. Systematic laddering is a fictitious term.
SOURCE: CR:024
SOURCE: White, D., & Foster, N. (2010, September 25). *What is data warehousing?* Retrieved September 28, 2010, from <http://www.wisegeek.com/what-is-data-warehousing.htm>
20. C
Increasing or decreasing production. Successful producers devote a great deal of time and money to finding out exactly what consumers want. They know that their success depends on keeping careful records of what sells and what doesn't so that they can focus on satisfying the economic wants of consumers rather than their own wants. If a certain product is not wanted by consumers, its production will be cut back or stopped; however, if the item is popular, its production will be increased. A producer might hire a consulting firm to identify consumers' changing economic wants in order to respond to those wants.
SOURCE: EC:002
SOURCE: EC LAP 10—Getting the Goods on Goods and Services (Goods and Services)
21. B
Iron ore. Natural resources include those things that are provided to us by nature. Office equipment is a capital good. Capital goods are materials used in the production of other goods and services. Physical ability is an example of a labor resource. An electrician is a human resource.
SOURCE: EC:003
SOURCE: EC LAP 14—Be Resourceful (Economic Resources)

22. C

Seller's market. When the demand is greater than the supply and a product's price is lower than the equilibrium price, excess demand exists. Excess demand, also known as a shortage, can result in a seller's market. A seller's market is the best time for producers to sell and is characterized by large demand, small supply, and high prices. A buyer's market is the best time for consumers to buy and is characterized by large supply, small demand, and low prices. Excess supply is also known as a surplus. A price ceiling is a maximum legal price that businesses can charge for certain products.

SOURCE: EC:006

SOURCE: EC LAP 12—When More Is Less (Functions of Price)

23. D

GDP per capita. GDP (gross domestic product) per capita is the average productivity of individual workers calculated by dividing the gross domestic product by the worker hours required to produce it. When a country's GDP per capita grows at a faster rate than its population, the country's economy can grow. The standard of living is affected by productivity. Management should improve workers' quality of work life to help to increase productivity. Capital goods are manufactured or constructed items that are used to produce goods and services.

SOURCE: EC:013

SOURCE: EC LAP 18—Make the Most of it (Productivity)

24. A

Decreased training time. One of the advantages of labor specialization is that worker training is simplified. It is much easier to train employees to do one task than it is to teach multiple tasks or an entire job. Advantages associated with labor specialization include increased production rates, increased skill level, and increased work quality.

SOURCE: EC:014

SOURCE: New World Encyclopedia. (2008, October 16). *Division of labor*. Retrieved October 14, 2010, from http://www.newworldencyclopedia.org/entry/Division_of_labor

25. D

Nominal; real. While the firms' wages will remain the same nominally, the purchasing or real power of the wages will decrease with the decreasing value of money due to inflation. Bonuses are usually less in times of severe economic inflation and are not a measure of purchasing power. Total wages are just the sum of all wages paid to employees and, as the nominal wages are not adjusted, then the total wages would not be affected either. Total wages are not a measure of purchasing power.

SOURCE: EC:083

SOURCE: McConnell, C.R., & Brue, S.L. (2005). *Economics: Principles, problems, and policies* (16th ed.) [p. 147]. Boston: McGraw-Hill/Irwin.

26. A

Learn and understand. A person's cognitive ability is his/her ability to learn and understand. This is the kind of intelligence that allows you to do well in school, to solve problems, and to learn new skills. It is not characterized by hearing and responding, listening attentively, or communicating fluently.

SOURCE: EI:001

SOURCE: EI LAP 6—EQ and You (Emotional Intelligence)

27. B

To be fair and equitable. Prejudice and bias are roadblocks that get in the way of judging others fairly and equitably. Prejudice and bias involve having opinions or making judgments based on feelings or hearsay, rather than on fact. To be fair and equitable, it is important to judge others on the basis of fact. Avoiding prejudice and bias when judging others does not necessarily improve negotiation, enable one to be persuasive, or make it possible to communicate effectively.

SOURCE: EI:017

SOURCE: Farese, L.S., Kimbrell, G., & Woloszyk, C.A. (2006). *Marketing essentials* (p. 222). New York: Glencoe/McGraw-Hill.

28. C

Integrity. Integrity is adhering to an established set of personal ethics. Ethics give people standards by which they can judge situations and decide what is the right thing to do. Dignity is pride. Conflicts are disagreements. Commitment is dedication or devotion to something or someone.

SOURCE: EI:022

SOURCE: Dalton, M., Hoyle, D.G., & Watts, M.W. (2006). *Human relations* (3rd ed.) [p. 416]. Mason, OH: South-Western Cengage Learning.

29. B

Living up to their promises. Employees who are unethical are often viewed by their coworkers as incapable of living up to their promises or of giving straight answers. Unethical employees cause themselves many problems at work and often are shunned by their coworkers. Unethical employees are capable of using technology, having personal friends, and investing their funds wisely even though they might not be well liked or respected by their coworkers.

SOURCE: EI:004

SOURCE: EI LAP 4—Work Right (Ethical Work Habits)

30. C

Learn new skills. People with a positive attitude are open-minded and receptive to new ideas and new ways of doing things. This makes it easier for them to learn new skills, techniques, and methods. Being open-minded does not help individuals to remain cheerful or to develop patience. Being intolerant is the result of a negative attitude.

SOURCE: EI:019

SOURCE: EI LAP 3—Opt for Optimism (Positive Attitude)

31. B

Personal information. Many businesses gather personal information about their customers that they store in a database. This might include information about a customer's credit rating, financial status, education, etc. Such information should be available only to employees who need to know it in order to do their jobs. Businesses should limit the number of employees who have access to customers' personal information in order to protect the privacy of their customers and prevent unauthorized persons from obtaining and using this information. A customer's telephone number, purchasing history, and identification code are types of routine business information that usually are not considered to be private.

SOURCE: EI:029

SOURCE: Bovée, C.L., & Thill, J.V. (2008). *Business communication today* (9th ed.) [p. 172]. Upper Saddle River, NJ: Pearson Prentice Hall.

32. B

Everyone has equal power. Consensus is a decision-making outcome that requires the substantial agreement of each group member. Making a decision by consensus means that each group member has equal power to say "Yes" or "No." Consensus cannot be reached if even one group member disagrees.

Consensus does not mean that one person rules, the majority rules, or everyone votes.

SOURCE: EI:011

SOURCE: QS LAP 17—All Aboard! (Consensus)

33. D

Are written in plain language. The Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (CARD) ensures that credit contract terms are written in plain language that consumers can easily understand. This act does not ensure that contract terms can be published in the newspaper, that they cannot be changed, or that they are subject to review by state legislatures.

SOURCE: FI:002

SOURCE: FI LAP 2—Give Credit Where Credit Is Due (Credit and Its Importance)

34. C

Cash flow. When businesses save excess money, they have more cash available to cover unexpected expenses or to invest. Saving money has a positive effect on a business's cash flow which determines the amount of cash the business has to work with at any given time. The more money that is saved, the more cash is available. Interest rate is the percentage figure used in calculating interest charges. Accounts receivable are all monies owed to a firm by its customers. Debt is the amount of money a business owes while equity is net worth.

SOURCE: FI:270

SOURCE: Gitman, L.J., & Madura, J. (2001). *Introduction to finance* (pp. 525-526). Boston: Addison Wesley.

35. D

Obtain short-term capital. Businesses can make either short-term or long-term investments. Short-term investments are those that a business holds for less than one year. Some businesses make short-term investments to generate capital in a short amount of time. They might need short-term capital to finance special projects or to expand the business. For example, a business invests \$100,000 in a stock that is appreciating in value by 15% annually. The business can sell the stock prior to the one-year point and probably obtain the 15% increase which amounts to \$15,000. Long-term wealth is capital that accumulates over a period of several years. Businesses do not hold investments for less than one year to reduce tax obligations or control inflation rates.

SOURCE: FI:270

SOURCE: Gitman, L.J., & Madura, J. (2001). *Introduction to finance* (pp. 525-526). Boston: Addison Wesley.

36. C

To avoid being denied credit. Individuals should periodically validate their credit histories to make sure that the information is correct. In some cases, inaccurate or false information may appear in a credit history, which will result in an individual being denied credit. To make sure this doesn't happen, individuals should review the information and contact the credit bureau to change or remove inaccurate information. Individuals do not validate their credit histories to understand credit laws, find out about different types of credit, or protect themselves from bankruptcy.

SOURCE: FI:072

SOURCE: Kapoor, J.R., Dlabay, L.R., Hughes, R.J., & Hoyt, W.B. (2005). *Business and personal finance* (pp. 174-179). New York: Glencoe/McGraw-Hill.

37. C

To pool and invest funds based on the needs of investors. The primary purpose of an investment company is to pool funds from people and invest them in the types of securities (mutual funds) that are most likely to generate the desired financial returns. Investment banks locate outside sources of money for firms. Banks and mortgage companies issue mortgages. Pension funds involve pooling employees' contributions and investing the monies for financial gain.

SOURCE: FI:336

SOURCE: MBAResearch and Curriculum Center. (2009). *Introduction to finance course guide briefing: Financial institutions* (p. 5-19). Columbus, OH: Author.

38. A

Corporate bonds and preferred stock. Capital markets buy and sell long-term securities. Corporate bonds, common and preferred stock, and treasury bonds are examples of securities that are sold on capital markets. Treasury bills and certificates of deposit are money market securities, which are short-term securities.

SOURCE: FI:337

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (p. 7). South-Western Cengage Learning.

39. C

A Dollars R Us Bank employee sells an auto-insurance policy to a customer. The trends of convergence and consolidation in the finance industry have led to a “one-stop shopping” environment for consumers. Bancassurance is the sale of insurance products by a retail business/bank. Because the Dollars R US Bank sells an auto-insurance policy to a bank customer, it is an example of bancassurance. Certificates of deposit are a type of bank product. Assurfinance or assurbanque occurs when an insurance company sells banking products.

SOURCE: FI:573

SOURCE: MBAResearch and Curriculum Center. (2009). Introduction to finance course guide briefing: Convergence and consolidation in the finance industry (p. 5-106). Columbus, OH: Author.

40. C

When consumer spending increases. Increased consumer spending usually indicates that the economy is growing and unemployment is low. Because more people are working, they have more money to invest in the financial markets. Higher interest rates make it more expensive for businesses to obtain the funds they need to expand their operations and typically causes stock prices to decrease. A bear market exists when stock prices decrease, and a bull market exists when the stock prices increase.

SOURCE: FI:574

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (p. 220). South-Western Cengage Learning.

41. C

Reporting requirements vary greatly by country. Globalization is the rapid and unimpeded flow of capital, labor, and ideas across national borders, including the integration of financial markets. A disadvantage or risk associated with financial globalization is that each country has different financial reporting requirements, which often make it difficult to obtain and disseminate needed information. Advantages to financial globalization include more options for investors, lower transaction costs, and more liquid financial markets due to increased capital.

SOURCE: FI:575

SOURCE: MBAResearch and Curriculum Center. (2009). Introduction to finance course guide briefing: Financial globalization (p. 5-157). Columbus, OH: Author.

42. D

Liberalization. Liberalization is the removal of government regulations on the flow of capital and international trade. Trade agreements such as NAFTA reduce trade barriers, which involve fewer government restrictions in relation to international trade. An emerging market is a financial market in a country with a developing economy. Convergence is the merging of financial providers from different financial sectors. Reconstructed market is a fictitious term.

SOURCE: FI:575

SOURCE: MBAResearch and Curriculum Center. (2009). Introduction to finance course guide briefing: Financial globalization (p. 5-157). Columbus, OH: Author.

43. D

Full-service brokerage firm. A full-service brokerage firm employs brokers who execute basic trades as well as offer investment planning, advice, and other services. Because they offer high levels of personal service, these types of firms usually charge high commissions. Online and discount brokerage firms provide clients with securities information; however, they offer fewer services, so clients assume more responsibility for managing their own investments. Boutique is not a term that is commonly used to describe a type of brokerage firm.

SOURCE: FI:274

SOURCE: Kapoor, J.R., Dlabay, L.R., Hughes, R.J., & Hoyt, W.B. (2005). *Business and personal finance* (pp. 294-295). New York: Glencoe/McGraw-Hill.

44. B

A company's annual report. A company's annual report is an example of an internal source, because it comes from the company itself. *The ValueLine Investment Survey*, brokerage firm research, and financial web portals are all examples of external stock information resources.

SOURCE: FI:274

SOURCE: QS LAP 36—The Source Is With You (Finding and Evaluating Securities Information)

45. A

Net change. Newspapers, business publications, and web sites publish a securities or stock table, which is a format used to list stock quotes. The table helps investors monitor the performance of their stocks. The net change is a column in the table that indicates the difference between a stock's closing price and the previous day's price, which may increase or decrease (drop). True value, net worth, and true yield are not terms that describe the difference between a stock's closing price and the previous day's price.

SOURCE: FI:275

SOURCE: QS LAP 37—Table Talk (Reading Stock Tables)

46. D

Ticker symbol. The ticker symbol, or call letters, are a system of letters that uniquely identifies a company in a stock (securities) table. Investors and potential investors review the stock tables to assess the performance of their stock or stock they might purchase. Because stock tables have many companies listed, knowing the ticker symbol of a particular stock helps people locate stock information quickly. A trademark is a symbol, design, or word used by a producer to identify a good or service, and it is registered with the government to prevent use by others. Yield code and trade number are fictitious terms.

SOURCE: FI:275

SOURCE: QS LAP 37—Table Talk (Reading Stock Tables)

47. D

Internal. Financial reports (e.g., income statements) generated by the company contain the company's financial information. Companies use the financial information in their balance sheets, cash flow statements, income statements, and break-even analyses to make business decisions. External information is information available in locations outside the company, such as government web sites and industry journals. Qualitative information is based on expert opinion or personal experience. Secondary information is information that has been collected for other purposes.

SOURCE: FI:084

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (pp. 110, 113-114). South-Western Cengage Learning.

48. D

Accrual. The accrual method of accounting records transactions as they occur, even if no money changes hands. This method is used by many businesses that offer credit. The cash accounting method records transactions when money changes hands. Income is money received by a business from outside sources. Credit is the arrangement by which businesses or individuals can purchase now and pay later.

SOURCE: FI:085

SOURCE: FI LAP 5—Show Me the Money (Nature of Accounting)

49. D

Industry trends. An industry trend is the direction in which a particular industry is moving. The combination of financial information with industry trends helps businesses to estimate the amount of cash flow necessary to continue operations and increase profits. If industry trends indicate that conditions are favorable for sales to remain strong, then a business might estimate that its cash flow from sales will increase. Future earnings and potential costs are what a business is predicting with the help of information about industry trends. Businesses use all available information in an effort to set realistic goals.

SOURCE: FI:091

SOURCE: FI LAP 6—Count the Cash (Cash Flow)

50. C

Repay a loan. Creditors are responsible for deciding whether a business should be given a loan. The income statement helps creditors assess the business's creditworthiness and the risk of extending credit to the business. It provides the evidence needed to prove that the business can pay back the loan. Expanding operations, developing new products, and increasing staff are some of the reasons why a business might apply for a loan and need to provide creditors with its income statement.

SOURCE: FI:094

SOURCE: FI LAP 4—Watch Your Bottom Line (Income Statements)

51. D

Money, maps, and management. Budgets can be described in terms of money, maps, and management. Budgets are about money, can be compared to maps, and are great management tools. Account books, bills, and bankruptcy; desires, debt, and discipline; and savings, sales, and success are all related to certain aspects of budgeting, but none describes its main characteristics as well as money, maps, and management.

SOURCE: FI:106

SOURCE: FI LAP 3—Money Tracks (Nature of Budgets)

52. D

To monitor aging accounts. The accounts receivable—all the monies owed to a firm by its customers—should be monitored carefully because they affect the business's cash flow and its ability to pay its employees and creditors. To collect the monies owed to them, the business should implement follow-up procedures to contact customers with delinquent or aging accounts. Businesses do not monitor accounts-receivable information to forecast sales, classify stocks, or evaluate interest rates.

SOURCE: FM:002

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (p. 342). South-Western Cengage Learning.

53. C

Its financial well-being at any given time. A business needs current, relevant, and accurate financial information so it can effectively monitor its financial status and make appropriate financial decisions. If a company makes a decision based on outdated or inaccurate information, the company could lose money or other assets. A business should also review its productivity rates, depreciation rates, and vendor performance; however, the business must evaluate other factors in addition to relevant financial information.

SOURCE: FM:002

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (p. 341). South-Western Cengage Learning.

54. C

Use auditing software applications. Auditing software tracks and records each step of all financial transactions. By keeping records of each step of a financial transaction, the business reduces the risks associated with embezzlement and other unethical and illegal activities within the business. If problems with financial data are detected, independent forensic accountants may be brought into the business to evaluate the inconsistencies. Businesses do not want to limit their financial transactions because some of them involve sales, which increase the businesses profitability.

SOURCE: FM:003

SOURCE: Tatum, M., & Harris, B. (2010, September 8). *What is an audit trail?* Retrieved September 30, 2010, from <http://www.wisegEEK.com/what-is-an-audit-trail.htm>

55. D

The people who need it. By limiting access to those who use or need it, confidential data are more secure and are less likely to be seen or modified by unauthorized people. Computer passwords are common methods of limiting access to certain computer data. Top-level management usually develops or approves the policies that determine who can access certain data. Mid-level managers usually need access to certain types of business data, but not all of it. Customers are often able to access some data about their personal accounts online.

SOURCE: FM:011

SOURCE: Indiana University. (2009, May 13). *What is the principle of least privilege?* Retrieved October 5, 2010, from <http://kb.iu.edu/data/amsv.html>

56. A

To identify hidden patterns. Data mining is the process of searching computer databases to look for patterns and relationships among information, some of which are not obvious. For example, data mining might reveal that a credit-card company's customers often use their credit cards to buy gasoline on Thursday afternoons between 3:00 p.m. and 7:00 p.m. The business could use this information to develop special programs or promotions to appeal to these customers. The data-mining process might involve sifting through a vendor's data, or it might reveal problems; however, the primary purpose of data mining is not to calculate statistical ratios, collect data from vendors, or resolve unidentified problems.

SOURCE: FM:012

SOURCE: Aaker, D.A., Kumar, V., & Day, G.S. (2007). *Marketing research* (9th ed.) [p. 711]. Hoboken, NJ: John Wiley & Sons, Inc.

57. C

Rule induction. Data mining is the process of searching computer databases to look for patterns and relationships among information. The data question or problem determines what data-mining approach the business should use. The rule induction approach involves the use of "if...then..." rules or scenarios to mine or obtain data. To use this approach, the business must determine the sets of circumstances to use to obtain results. For example, a mortgage company may want to determine the probability or odds of customers earning a certain salary defaulting on a \$200,000 mortgage. The neural networking approach uses computer applications that mimic the ways in which the human brain processes data, which often involve sequencing data patterns. Decision trees involve categorizing or segmenting data into meaningful, related groups based on certain characteristics that are defined by the set of rules (criteria) that the business establishes. The fuzzy logic approach uses broad or vague concepts to set rules, such as "high" or "low."

SOURCE: FM:012

SOURCE: Zikmund, W.G., & Babin, B.J. (2010). *Exploring marketing research* (10th ed.) [p. 172]. Mason, OH: South-Western Cengage Learning.

58. D

Debt management. The primary function of budgeting software is to help a business forecast and monitor income and expenses for all of its functions including sales, promotion, production, payroll, etc. Advanced software can generate different types of reports by integrating financial data from a variety of sources (e.g., cash flows, "what if" scenarios) to help the business make decisions about how to best manage its debt (expenses). Businesses often use production-management or project-management software for scheduling and sequencing and for allocating materials for production or a project.

SOURCE: FM:013

SOURCE: Centage Corporation. (2010). *Mastreo solution comparison*. Retrieved October 8, 2010, from <http://centage.com/products-overview.htm>

59. D

Payroll. Because payroll is often a business's biggest expense, companies continuously monitor and analyze their payroll. Some businesses must pay time and a half to employees who work overtime. If many employees work a lot of overtime, it can affect the amount of money the business has available for other activities, such as sales, production, and paying its expenses (accounts payable).

SOURCE: FM:014

SOURCE: IDEA Data Analysis Software. (n.d.). *Financial analysis*. Retrieved October 8, 2010, from http://www.audimation.com/pdfs/Financial_Analysis_Applications.pdf

60. D

Export. The export function allows the user to output or transmit data to another database, spreadsheet, or file format so another database or program can use the data. Many database programs (e.g., Access) allow users to export data to a variety of supported databases, programs, and file formats. Replication is a function that allows the user to create two or more copies of an Access database. The conversion function allows the user to save the data in the existing database in another version of the database program. A filter is a set of criteria that is used to retrieve a subset of data or to sort the data.

SOURCE: FM:015

SOURCE: Chapple, M. (2010). *How to export data from Microsoft Access 2007 to Microsoft Excel*. Retrieved October 8, 2010, from http://databases.about.com/od/tutorials/ht/export_2007_excel.htm

61. A

Auditing. Shareholders and prospective shareholders make investment decisions by reviewing the financial information that public corporations provide. For this reason, it is important for the corporation to accurately report its financial position so investors can make appropriate decisions based on correct information. The auditing process involves reviewing the financial information to ensure that it is accurate, meets legal requirements, and is presented in the correct format before releasing it to the general public. Batch processing involves moving groups of data accounts from one area to another (e.g., pending to complete) at certain intervals. Planning is the management function of deciding what will be done and how it will be accomplished. Smoothing involves offering customers a discount for purchasing products that otherwise would go to waste.

SOURCE: FM:004

SOURCE: The Institute of Financial Auditors. (2010). *Why should an organization have an internal audit committee?* Retrieved October 8, 2010, from <http://www.theiia.org/theiia/about-the-profession/internal-audit-faqs/?i=1085>

62. D

The federal government. Governments require businesses to provide certain types of financial information to regulatory agencies and shareholders. Public corporations are required to provide financial information that has been verified by an independent auditor to shareholders (owners of the company) and prospective investors. The board of directors and the accounting department perform activities to ensure that the corporation is in compliance.

SOURCE: FM:004

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (pp. 114-115). South-Western Cengage Learning.

63. B

Use the information to make financial decisions. Accounting is the process of keeping and interpreting financial records. The finance function is responsible for obtaining funds and managing the business's money in ways that achieve the business's goals. The financial records that are maintained and prepared by the accounting function are analyzed by the finance function of the business, which uses the information to make decisions about how to achieve the business's goals. Adjusting journal entries, tracking accounts receivable, and calculating ratios (e.g., equity) are tasks carried out by a business's accounting department.

SOURCE: FM:005

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (pp. 102-103). South-Western Cengage Learning.

64. A

The managerial accounting system is useful for planning and internal decision making. Businesses use managerial accounting systems for internal use. These systems help managers plan, control resources, and make decisions for various segments of the company. For example, the managerial accounting system often involves obtaining financial information to determine if the business should order more goods for inventory or if it should hire additional production workers. The government requires businesses to use the financial accounting system to report their financial positions to external users. The financial accounting system involves reporting financial information in certain ways by applying the generally accepted accounting principles (GAAP). The government does not require businesses to use managerial accounting systems, so the ways in which managerial accounting systems obtain and use information are flexible.

SOURCE: FM:006

SOURCE: Accountinginformationmanagement.com. (2009). *Financial accounting vs. managerial accounting - difference between financial and managerial accounting*. Retrieved October 8, 2010, from http://www.accountingformanagement.com/financial_accounting_vs_managerial_accounting.htm

65. B

Follow accounting standards such as GAAP or IFRS. Because businesses must use the financial accounting system to prepare financial information for external audiences (i.e., shareholders and government agencies), the information must be presented in a consistent way. The generally accepted accounting principles (GAAP) are currently used by most accountants in the U.S. to ensure that they prepare financial reports in a consistent manner. However, much of the rest of the world uses the International Financial Reporting Standards (IFRS) to prepare and report financial information. Use of the financial accounting system is a government requirement rather than a way for the business to establish credibility. Businesses do not need to attach copies of all transaction receipts to reports or forms; however, receipts and documentation must be available for review if the government requests or requires it for an additional audit. Financial data registration guidelines are a fictitious term.

SOURCE: FM:006

SOURCE: Accountinginformationmanagement.com. (2009). *Financial accounting vs. managerial accounting - difference between financial and managerial accounting*. Retrieved October 8, 2010, from http://www.accountingformanagement.com/financial_accounting_vs_managerial_accounting.htm

66. C

Customers' invoices. By reviewing invoices on an ongoing basis, a business is often able to identify sales trends. For example, lower invoice totals over a period of time indicate that the business is not generating the same levels of revenue and profit as it did during previous periods. Lower revenues and profits may require the business to revise its budget. The business will need to determine why it is experiencing lower sales, which may include an economic downturn, customer-service issues, product quality, etc., so it can take corrective action. Cash outflows are the monies that flow out of the business (expenses). Liquidity ratios are formulas that help a business determine how quickly it can pay off its short-term debts. A break-even analysis is a financial analysis that is used to identify the level of sales needed to reach the break-even point at various prices.

SOURCE: FM:008

SOURCE: Farese, L.S., Kimbrell, G., & Woloszyk, C.A. (2009). *Marketing essentials* (pp. 27, 350, 594). Woodland Hills, CA: Glencoe/McGraw-Hill.

67. D

Comparative balance sheet. A balance sheet is a financial statement that captures the financial condition of the business at that particular moment. Businesses often integrate their balance sheets from previous time periods into one balance sheet so they can compare data to detect changes and identify trends. This document is often called a comparative balance sheet. The consumer price index, stock tables, and customer credit reports are external sources of financial information.

SOURCE: FM:008

SOURCE: Accountinginformation.com. (2009). *Example of a horizontal or trend analysis: Balance sheet*. Retrieved October 5, 2010, from http://www.accountingformanagement.com/horizontal_analysis_or_trend_analysis.htm

68. D

Credit standards. Businesses establish standards or criteria for determining to whom they should extend credit. Businesses consider many factors such as the customer's credit history, credit score, income, type of purchase, etc. If the customer meets the company's credit standards, Tom is more likely to approve the customer's request for a line of credit. The company's purchasing policies, accounting method, and payment history are not factors that Tom needs to consider when determining if the company should offer the customer a line of credit.

SOURCE: FM:009

SOURCE: Dlabay, L.R., & Burrow, J.L. (2008). *Business finance* (p. 275). South-Western Cengage Learning.

69. D

Cash-flow statement. The cash-flow statement is a financial summary that contains estimates as to when, where, and how much money will flow into and out of a business. Analyzing the cash-flow statement will help a business determine if it will have enough money coming in to pay its short-term expenses. The business plan is the business's written business model—it describes how the business will achieve its objectives. The capital-investment plan describes the business's assets and how the business plans to use them over time. A mutual-funds statement is a status report sent to investors to let them know how their mutual funds are performing.

SOURCE: FM:010

SOURCE: Bovée, C.L., Thill, J.V., & Mescon, M.H. (2007). *Excellence in business* (3rd ed.) [pp. 534-535]. Upper Saddle River, NJ: Pearson Prentice Hall.

70. C

Sales and investment income. Businesses earn income in a variety of ways, such as sales, rentals, dividends, and accumulated interest. Changes in income affect a business's profitability. If the business's profitability drops over time, then it might need to cut expenses. If the business's profitability increases, the business might decide to expand or replace equipment. So, it is important for a business to continuously monitor its sources of income. Insurance premiums are expenses. The depreciation rate is the level at which the value of an asset (e.g., machinery) decreases over time.

SOURCE: FM:010

SOURCE: Leka, M. (2007, October). *How to analyze financial statements*. Retrieved October 13, 2010, from <http://e-articles.info/e/a/title/HOW-TO-ANALYZE-FINANCIAL-STATEMENTS/>

71. B

Employee handbook. An employee handbook provides new employees with printed information about the business that the employee can read and refer to when s/he has questions about the business.

Employee handbooks usually include basic information such as company history, hours of operation, benefits, and company policies. Providing employees with handbooks reduces the amount of time that must be spent in orientation sessions. An exit interview is a discussion with an employee who is leaving the company. A performance appraisal is an evaluation of the employee's job performance. A job applicant provides a prospective employer with a copy of his/her résumé, which outlines his/her work experience and educational background.

SOURCE: HR:360

SOURCE: Mathis, R.L., & Jackson, J.H. (2003). *Human resource management* (10th ed.) [pp. 530-531]. Cincinnati: Thomson/South-Western.

72. D

High employee turnover. Taking negative actions can result in unhappy employees who will soon look for other jobs, creating high turnover. This costs a company a lot of time and money in hiring and training new employees. Other results of negative actions may include decreased efficiency, a damaged business reputation, and an increase in legal problems.

SOURCE: MK:019

SOURCE: MK LAP 3—Just Do It...Right (Company Actions and Results)

73. B

Search the Web. The World Wide Web (WWW) links millions of computers throughout the world by way of the Internet. Obtaining information is one of the most common ways that businesses use the Web. For example, a business in one state that wanted to locate a potential vendor in another state can search the Web to find out if that vendor has posted information on its web page. Searching the Web is fast and allows business employees to obtain vital information without leaving the office. In order to send an e-mail or fax a request, a business first needs to obtain an e-mail address or a fax number, which often are listed on a web page. Phoning an agent would not necessarily provide a business with information about new vendors.

SOURCE: NF:006

SOURCE: Bovée, C.L., Thill, J.V., & Mescon, M.H. (2007). *Excellence in business* (3rd ed.) [pp. 139-143]. Upper Saddle River, NJ: Pearson Prentice Hall.

74. D

Detailed reports, memos, and contracts. Businesses use word-processing software to create a variety of business-related documents including reports, memos, contracts, business plans, letters, and tables. Spreadsheets are generated by other types of software programs (e.g., Excel) that organize, calculate, and analyze numerical information. Although many word-processing applications have basic drawing capabilities to produce simple graphics, the more complex graphic elements are generally created by special graphics and design programs (e.g., Freehand).

SOURCE: NF:007

SOURCE: Farese, L.S., Kimbrell, G., & Woloszyk, C.A. (2006). *Marketing essentials* (p. 199). New York: Glencoe/McGraw-Hill.

75. B

Sales are expected to increase by 5%. Spreadsheet software programs allow businesses to use a computer to perform accounting and other financial calculations. An advantage of using a spreadsheet program is that a business can make various assumptions about sales and find out quickly what effect they will have on its financial situation. For example, a business could change the level of sales by different percentages, such as 5% or 10%, to find out the effect that would have on net income. The spreadsheet program automatically does the calculations. Although keeping appointments might lead to sales, a salesperson would be more likely to use a personal digital assistant (PDA) to track appointments rather than a spreadsheet program. Mailing labels are generated with database programs. Database programs are also used to track customers' purchases.

SOURCE: NF:010

SOURCE: Farese, L.S., Kimbrell, G., & Woloszyk, C.A. (2009). *Marketing essentials* (pp. 199-200). Woodland Hills, CA: Glencoe/McGraw-Hill.

76. C

Business. The primary function of record keeping is to provide information that indicates the status of the business. In other words, record keeping provides information about what is happening with the business, such as whether it is making a profit or it is spending too much on expenses. The records that a business keeps are not designed to provide information about what is happening with the economy, the country, or the industry. However, the business's records might reflect current economic or industry trends.

SOURCE: NF:001

SOURCE: NF LAP 1—Record It (Business Records)

77. D

Technology improvements. A trend is the general direction in which people or events are moving. To compete in the marketplace, businesses must use technology. Technology can improve a business's efficiency and productivity levels by making use of technological tools, such as machinery, computer networks, and the media. Because technology is always changing, businesses must also change to remain competitive. Economic conditions (e.g., unemployment rates, inflation, interest rates, business growth) fluctuate and change and do not remain stable. Business and consumer buying motives are not always predictable. Product classification is not a business trend that affects a business's efficiency and productivity levels.

SOURCE: NF:013

SOURCE: Ray, R. (2009, January 13). *Top ten technology trends for small businesses-2009*. Retrieved October 15, 2010 from <http://smallbiztrends.com/2009/01/top-ten-technology-trends-for-small-businesses-2009.html/>

78. B

It is always changing. A business's environment is always in flux. That's why environmental scanning is so important. A business's environment cannot be avoided, and it will affect every business regardless of the industry. It consists of many elements, more than just the economy and technology.

SOURCE: NF:015

SOURCE: NF LAP 2—Get the 411 (Environmental Scanning)

79. B

Identify accident trends. Businesses must maintain records of accidents that occur at the workplace and report them to the federal government. The government compiles this information in order to identify trends such as the types of industries in which accidents occur most and least frequently and the types of injuries. This information can be useful in establishing or improving accident prevention programs. Insurance companies establish premiums. The federal government does not provide medical treatment recommendations. The information collected may eventually result in increased government regulation of business, but this is not its primary purpose.

SOURCE: OP:009

SOURCE: Electric Power Research Institute. (2006, October). *Occupational health and safety trends database: Customized analyses*. Retrieved October 15, 2010, from <http://mydocs.epri.com/docs/public/0000000000001014506.pdf>

80. D

Using closed-circuit television. Closed-circuit television can be used to monitor customer activity on the sales floor as well as vendor and/or employee activity in other areas of the business. This system helps prevent or detect theft. Raising prices and having fewer sales would reduce customer traffic, which might improve security but would also reduce the business's income. Establishing longer hours could increase risk.

SOURCE: OP:013

SOURCE: Kimiecik, R.C., & Thomas, C. (2006). *Loss prevention in the retail business* (p. 56). Hoboken, NJ: John Wiley & Sons.

81. C

Financial. Resources are people or items that the business needs to accomplish an activity or project. Financial resources provide money to pay workers and buy the goods and services that the business needs to complete a project. When a project goes over budget, a business must take steps to cut costs. To cut costs, the business might decide to use lower quality goods or make do with fewer supplies. Human resources are the people who carry out the work. Intangible resources cannot be detected through the senses. Support resources refer to the additional help (e.g., volunteers, donations, technology) that the business uses to complete a project.

SOURCE: OP:003

SOURCE: QS LAP 19—Get What You Need (Identify Resources)

82. B

Project planning. A project is any type of undertaking or task that has a distinct beginning and end. A project plan is a specific course of action (plan) for accomplishing the project's objectives. Project planning is the process of determining which resources (human, financial, materials) the business needs to complete the project and how those resources will be used. The advantage to project planning is that the business is more likely to achieve the project's objectives because the planner has obtained the necessary resources to complete the project before starting to work on it. Examples of projects that businesses plan might include training programs, marketing research, information analysis, and inventory control.

SOURCE: OP:001

SOURCE: QS LAP 28—From Here to Done (Project Planning)

83. D

Form. Form utility is usefulness created by altering or changing the form or shape of a good to make it more useful to the consumer. This change takes place during the production process, e.g., production turns flour and other ingredients into bread. Place utility is usefulness created when goods or services are made available at the place where they are needed or wanted by consumers. Time utility is usefulness created when products are made available at the time they are needed or wanted by consumers. Possession utility is usefulness created when ownership of a product is transferred from the seller to the user.

SOURCE: OP:017

SOURCE: OP LAP 4—Can You Make It? (Nature of Production)

84. B

\$243.36. Employees should obtain permission before using company equipment, such as the postage machine, for personal use in order to help control expenses. Personal use of the company postage machine costs the business money because it must buy the postage in advance from the postal service. In this example, three employees each take 39 cents of postage four times a week for a total of 12 times ($4 \times 3 \text{ employees} = 12$) which amounts to \$4.68 per week ($\$0.39 \times 12 = \4.68). Determine the yearly cost by multiplying the weekly cost by the number of weeks in a year ($\$4.68 \times 52 = \243.36).

SOURCE: OP:025

SOURCE: Think Big. (2009, April 29). *Steps for reducing business expenses*. Retrieved October 15, 2010, from http://www.associatedcontent.com/article/1682579/steps_for_reducing_business_expenses.html?cat=3

85. D

Identify. The first step in becoming organized is to identify all of the things that you have to do. A recommended way to do this is to make a list of them. The activities can then be prioritized according to their importance, scheduled, and performed.

SOURCE: PD:009

SOURCE: Wallace, H.R., & Masters, L.A. (2006). *Personal development for life & work* (9th ed.) [p. 300]. Mason, OH: South-Western Cengage Learning.

86. D

Find out what went wrong. Not all goals can be achieved. When you don't reach a goal, look for the reason; don't blame it on someone else. You may need to adjust your goal or set a new one, but don't give up goal-setting because of a single failure. Congratulate yourself when you reach a goal.

SOURCE: PD:018

SOURCE: PD LAP 16—Go for the Goal (Goal Setting)

87. A

Time. Prioritizing means to rank things in the order of their importance. This step will help you to make the most efficient use of your time because the most important things will be taken care of first.

Disposable income is the amount of income people have left to spend, or dispose of, after they have paid their taxes. Deciding how to dispose of income is an activity that could be prioritized. Product knowledge is information about a specific good or service that can be used in sales presentations. Tact is the skill of avoiding doing or saying things offensive to others.

SOURCE: PD:019

SOURCE: OP LAP 1—About Time (Time Management in Business)

88. B

Web sites of professional organizations. Most business specialties have a professional organization, such as the National Association of Business Economics. Today, many professional organizations also have a web site that includes information about the type of jobs in the profession. Many web sites also provide information about the training necessary for jobs in the profession and a listing of members who may have positions available. Classified ads in urban newspapers and community-college student centers are not good sources of detailed information about specific careers. Corporate human-resource departments only provide information about careers in their businesses.

SOURCE: PD:025

SOURCE: Silva, K.E., & Howard, D.M. (2006). *Hospitality & tourism* (pp. 338-340). New York: Glencoe/McGraw-Hill.

89. A

Brief reminder of qualifications. It is acceptable for applicants to include a brief reminder of their qualifications in an interview follow-up letter. Restating that they are qualified for the position is one way of saying that they are interested and would like to have the job. The reminder of qualifications should be very brief because the applicants will have covered that topic in detail during the interview. Information about employment history, education, and salary expectations is discussed in the interview and should not be reviewed in a follow-up letter.

SOURCE: PD:029

SOURCE: Bailey, L.J. (2003). *Working: Career success for the 21st century* (3rd ed.) [pp. 71-72]. Mason, OH: South-Western.

90. D

Real estate appraiser. A real estate appraiser determines the value of a specific property. A real estate agent or broker assists buyers and sellers in the process of purchasing or selling property. An underwriter works in the insurance industry and calculates the risk of loss, establishes premium rates, and designs policies to cover risk. An actuary assesses risk using statistical analysis.

SOURCE: PD:152

SOURCE: QS LAP 51—Careers in the Money (Careers in Financial Services)

91. C

Generally speaking, the U.S. population is worse off financially than before. One of the reasons there will be increased demand for financial analysts and personal financial advisors is that, generally speaking, the U.S. population is better, not worse, off than before. Other reasons for increased demand include a large segment of the population, namely Baby Boomers, is facing retirement; generally speaking, the U.S. population is better educated; and globalization of securities markets makes investing more complicated.

SOURCE: PD:152

SOURCE: QS LAP 51—Careers in the Money (Careers in Financial Services)

92. C

Carol Hershberger, Financial Analyst, CCB Corporation. Financial analysts are typically required to obtain a college degree and additional professional certification, such as a Certified Financial Analyst certification (CFA). Bank tellers and bookkeepers often obtain special certifications to perform their duties; however, many businesses do not require these individuals to have college degrees to obtain their jobs. A production specialist works in operations rather than in finance.

SOURCE: PD:082

SOURCE: Walker, N., & Joseph, A. (2010, September 11). *How do I become a financial analyst?* Retrieved October 1, 2010, from <http://www.wisegeek.com/how-do-i-become-a-financial-analyst.htm>

93. A

Implement a referral system. A referral is a recommendation given to an individual or business by another individual or business. For example, satisfied clients may refer their friends, family, or colleagues to their financial planners for financial advice. This is one way that businesspeople working in the financial industry can build professional relationships. A financial planner may implement a referral system or program to encourage clients or associates to provide referrals. A referral system might involve giving a free consultation or discount to a client who has provided the financial planner with a lucrative referral. Reading about industry trends and printing new business cards are not actions that build professional relationships. The finance professional must take action on the trends s/he has researched and distribute the business cards to others to begin building professional relationships. Because financial information is personal and confidential, people are usually selective with whom they share their information.

SOURCE: PD:153

SOURCE: Yokam, C. (n.d.). *How to build business relationships*. Retrieved October 13, 2010, from http://www.ehow.com/how_4488222_build-business-relationships.html

94. A

Businesses often reduce the risk of financial loss by providing ethics training for their employees. Because employees' personal ethics often differ from their employers' ethics policies, it is important for businesses to provide ongoing ethics training for all employees. If an employee does something unethical (intentionally or unintentionally), the business may be liable for the employee's actions, which may involve financial losses. Effective risk management involves monitoring many business activities including investments, product quality, sales processes, etc. Risk can be controlled and reduced, but it cannot be eliminated.

SOURCE: RM:041

SOURCE: Head, G. (2005, February). *Why link risk management and ethics?* Retrieved October 5, 2010, from <http://www.irmi.com/expert/articles/2005/head02.aspx>

95. A

Product safety. Businesses risk financial losses and damaged reputations when they use lower-quality goods and materials. In the example, the manufacturer used low-quality parts that affected the performance and safety of the car engine. When car engines catch on fire and people are injured, the manufacturer may be legally required to pay damages to the injured parties. The risks in the example are not associated with domestic trade, service quality, nor trade secrets.

SOURCE: RM:041

SOURCE: Kitzes, B. (n.d.). *Product safety management*. Retrieved October 6, 2010, from <http://www.productsafety.com/>

96. C

Performing back-up procedures on a regular basis. Backing up the computer system and storing the back-up information off-site can reduce financial losses due to uncontrollable circumstances such as electrical outages or fire. Businesses that do not perform back-up procedures on a regular basis may lose the data for good or take a lot of time and money to replace if a disaster harms its computer systems. Computer systems help make businesses operate more efficiently than manual systems do. Different types of intrusion detection systems (e.g., firewalls) are designed to protect the business's computer systems from unauthorized access. Passwords and encryption are additional techniques used to secure access to computer information.

SOURCE: RM:042

SOURCE: Monetary Authority of Singapore. (2002, November 11). *Technology risk management guidelines for financial institutions*. Retrieved October 13, 2010, from <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan011549.pdf>

97. B

Sexual harassment. Sexual harassment involves unwelcomed sexual remarks, advances, conduct, or requests. By providing employees with training about actions and language that constitute sexual harassment, employees are less likely to behave inappropriately. If a firm does not follow up or take action on an employee's sexual harassment complaint, the employee may sue the firm. Lawsuits can damage the firm's reputation and cost the firm a lot of money. Gender-related issues are not related to (facility) structural damage, widespread illness, or financial information.

SOURCE: RM:043

SOURCE: USC. (n.d.). *Legal issues/managing risk*. Retrieved October 19, 2010, from http://www.usc.edu/academe/faculty/essential_guides/legal.html

98. B

Loss exposures. Circumstances that create risk factors are loss exposures. Loss exposures within the business include situations such as safety and health hazards, information security, and property theft. Businesses can lower and control these types of risks by implementing policies and by requiring employees to follow procedures that minimize safety, illness, computer breaches, and theft. Changes in exchange rates, regulations, and industry trends are external factors that can affect a business's level of risk.

SOURCE: RM:058

SOURCE: Bovée, C.L., Thill, J.V., & Mescon, M.H. (2007). *Excellence in business* (3rd ed.) [p. A-14]. Upper Saddle River, NJ: Pearson Prentice Hall.

99. D

Tax increases. Businesses cannot control when and by how much a government may increase taxes, which are uninsurable. A business's inventory is insurable. Liability insurance can be purchased to transfer the business's risks related to the potential injuries of its employees and customers. Natural disasters such as fire, tornados, and earthquakes are insurable risks.

SOURCE: RM:058

SOURCE: Bovée, C.L., Thill, J.V., & Mescon, M.H. (2007). *Excellence in business* (3rd ed.) [p. A-14]. Upper Saddle River, NJ: Pearson Prentice Hall.

100. D

Material. Material resources are the equipment and supplies that businesses need to produce and/or sell their goods and services. Managers who plan, organize, and control production equipment, office equipment, and office supplies are managing the material resources. Human resources are the employees who do the work. Financial managers manage financial aspects of the business. Information management involves overseeing various facts, statistics, and opinions that affect the business.

SOURCE: SM:001

SOURCE: SM LAP 3—Manage This! (Nature of Management)