



Competency-Based
Competitive Events
Written Exam
for State/Province Use

Test Number 1261
Booklet Number _____

Finance Exam

Corporate Finance Event

Financial Accounting Event

Managerial Accounting 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. Which of the following is a violation of your rights that might occur when you encounter a member of law enforcement:
 - A. Your car is searched by a police officer, even though you did not give permission.
 - B. A police officer pulls you over and asks for your license and registration.
 - C. You are stopped by a police officer for being out a few minutes past curfew.
 - D. A police officer arrives at your party to make sure there is no underage drinking.
2. The ABC Company published an incorrect statement about the quality of the Marston Company's product. As a result, Marston's sales have dramatically decreased. This is an example of a legal tort related to
 - A. defamation.
 - B. privacy.
 - C. infringement.
 - D. trespassing.
3. A business might conduct a compliance audit to
 - A. manipulate financial data to indicate profitability.
 - B. ensure that it is following government regulations.
 - C. develop efficient production processes.
 - D. evaluate its vendors' performance.
4. Which of the following is a common problem that financial institutions experience when dealing with compliance:
 - A. Long-term thinking
 - B. Too much emphasis on risk management
 - C. Lack of coordination
 - D. Growing importance of technology
5. What is an advantage of using technology in compliance?
 - A. Ease of transitions
 - B. Decreased cost
 - C. Increased efficiency
 - D. Risk of increased fraud
6. Which of the following has the fiduciary responsibility to make decisions on behalf of a company's shareholders:
 - A. The municipal court system
 - B. The industry's professional organization
 - C. The company's line staff
 - D. The corporation's board of directors
7. Andrew received an official-looking email that appeared to be from a government agency. The message requested that Andrew reply immediately to the email and provide his bank account information and credit card account numbers. Fortunately, Andrew found out that the message was fraudulent before he provided the information. What illegal activity does this situation exemplify?
 - A. Affinity fraud
 - B. Ponzi scheme
 - C. Phishing
 - D. Accounting fraud
8. Which of the following is most likely to incur a luxury tax:
 - A. Used minivan with leather interior
 - B. Five-carat diamond ring
 - C. Wool coat with faux fur collar
 - D. Laptop computer
9. Clayton recently invested \$50,000 in an oil company. The company has agreed to use Clayton's investment strictly for exploration purposes. Rather than writing off \$50,000 from its corporate taxes, the company passed the deduction on to Clayton. Clayton can now write off the entire amount of his investment against his taxes. Clayton invested his money in
 - A. flow-through shares.
 - B. offshore companies.
 - C. government bonds.
 - D. derivatives.
10. Why would a business use comparative-reasoning processes to ensure that its financial data are in compliance?
 - A. To identify similar transactions
 - B. To track data in relation to time
 - C. To review surrounding or historical data
 - D. To boost data storage systems

11. Which of the following is the best way to handle dishonest customers:
- A. Don't jump to quick conclusions.
 - B. Explain and demonstrate good service as many times as you need to.
 - C. Never press for sales or decisions.
 - D. Mirror their behavior.
12. What is the most common reason for a client to leave or fire their financial advisor?
- A. Lack of communication
 - B. Poor investment return
 - C. High commission fees
 - D. Location of the office
13. A business selects specific characteristics about its customers and uses software to obtain data from its database that will help the business identify, evaluate, and group its customers' buying behaviors. What data mining technique is the business using?
- A. Statistical
 - B. Organic
 - C. Clustering
 - D. Primary
14. Effective CRM technology includes analytics features that automatically draw useful conclusions out of the data stored. These features assist in
- A. training.
 - B. collaboration.
 - C. data mining.
 - D. data entry.
15. Trade-offs should be based on
- A. capital goods.
 - B. scarcity.
 - C. opportunity cost.
 - D. noneconomic wants.
16. Which of the following business activities includes planning, maintaining, monitoring, controlling, and reporting the use of financial resources:
- A. Information management
 - B. Financial analysis
 - C. Human resources management
 - D. Operations of finance
17. A primary reason that businesses expand their operations in foreign countries is to
- A. condense their market shares.
 - B. eliminate tax obligations.
 - C. increase revenues.
 - D. promote environmental issues.
18. Which of the following occurs last in the collective bargaining process:
- A. Researching the issues
 - B. Conducting negotiations
 - C. Settling the contract
 - D. Voting on the agreement
19. Which of the following is an example of a regional multilateral trade alliance impacting global trade:
- A. The International Monetary Fund
 - B. The World Trade Organization
 - C. The United States-Mexico-Canada Agreement
 - D. The United Nations
20. Your manager has reminded you to correct register errors as they occur to ensure close-out accuracy. This type of comment is
- A. constructive criticism.
 - B. internal feedback.
 - C. positive feedback.
 - D. destructive criticism.
21. Emily has decided to use all of her savings to buy a new car instead of a used one. What are the opportunity costs of that decision?
- A. The benefits she could have received by using the additional cost of a new car another way
 - B. The reliability and luxury of a new car compared to a used one
 - C. The money she saves by not having to constantly repair a used car
 - D. The benefits she could have received by using public transportation instead

22. Which of the following statements accurately describes a difference between saving and investing:
- A. Saving is best used to reach goals in the near future, while investing is best used for longer-term goals.
 - B. It's easier to access money that is invested than money that is in a traditional savings account.
 - C. Saving is generally riskier than investing, meaning that you may lose all or some of your money.
 - D. A traditional savings account has the potential for higher returns than investments.
23. What is the primary goal of an investment company?
- A. To pool and invest funds based on the needs of investors
 - B. To locate outside sources of money for firms
 - C. To issue various types of mortgages to businesses
 - D. To collect financial contributions and invest them for employees
24. What does the credit rating of a financial institution indicate to savers and investors?
- A. When the financial institution expects to see a return on investment
 - B. The return rate for specific mutual funds
 - C. The amount of funds that the bank lends to other institutions
 - D. How risky it is to provide the financial institution with funds
25. Cocoa beans and corn are examples of investments that people make in which of the following financial markets:
- A. Soft commodities
 - B. Insurance
 - C. Selective property
 - D. Money
26. If Hannah wants to invest in the capital markets, what types of securities should she purchase?
- A. Corporate bonds and treasury bills
 - B. Common stock and certificates of deposit
 - C. Treasury bills and certificates of deposit
 - D. Corporate bonds and preferred stock
27. Recently, the Second-Fourth Bank merged with the Wide World Insurance Company. This is an example of
- A. liquidation.
 - B. convergence.
 - C. divergence.
 - D. endowment.
28. When your project isn't as successful as you hoped it would be, you should
- A. scrap the project entirely and start over.
 - B. figure out which of your project team members are responsible.
 - C. hide your mistakes from project stakeholders.
 - D. gather lessons learned so you won't repeat the same mistakes.
29. A benefit of consolidation to financial institutions is
- A. one-stop shopping.
 - B. more liquid capital.
 - C. less complex products.
 - D. more product options.
30. Which of the following is an example of arbitrage:
- A. An individual earns interest on their money by agreeing to leave it in a financial institution for a certain time frame.
 - B. An individual buys 10 shares of stock for \$150 per share on one market and immediately sells each share for \$200 on another market.
 - C. A business places a percentage of its income into a retirement account for employees.
 - D. A business sells corporate bonds to obtain funds to finance major expansion efforts.
31. When the unemployment rate rises, stock values typically
- A. decrease.
 - B. increase.
 - C. stabilize quickly.
 - D. remain unchanged.

32. When an emerging market suffers an economic decline, foreign investors usually
- A. use the opportunity to invest more in the emerging market.
 - B. quickly withdraw their money from the emerging market.
 - C. help the emerging market recover economically.
 - D. pay less for each transaction in the emerging market.
33. By investing their funds in several different countries, investors
- A. easily avoid integrated and emerging financial markets.
 - B. demonstrate their liberalization and home biases.
 - C. reduce their exposure to business cycle risks.
 - D. reduce foreigners' access to domestic financial markets.
34. Which of the following are among the most important resources to access prior to purchasing stock in a company:
- A. EDGAR and the Statement of Ownership
 - B. ESOP and the company's website
 - C. EDGAR and the company's website
 - D. ESOP and the Statement of Ownership
35. What is a disadvantage of using the internet to obtain investment information?
- A. The large amount of information available on the internet can be overwhelming.
 - B. The internet is not accurate or reliable.
 - C. There is not enough information available on the internet.
 - D. None of the information on the internet is available for free.
36. If Kayla wants to obtain the most current pricing for various stocks, she should
- A. review a business's annual report.
 - B. pick up a business-oriented newspaper.
 - C. visit the "About Us" section of a business's website.
 - D. access a financial website.
37. How can you tell if a stock is trending upward?
- A. Examine the best bid/ask.
 - B. Compare the previous close with the opening price.
 - C. Look at the share volume.
 - D. Compare earnings per share with P/E ratio.
38. In their raw state, financial data aren't very helpful. To be useful to businesses, financial data need to be
- A. listed in order of size from smallest to largest.
 - B. gathered and organized in some way.
 - C. inserted into a spreadsheet.
 - D. formatted in HTML.
39. How is financial information related to an organization's success?
- A. Financial information is essential for an organization to continue operating.
 - B. Financial information gets in the way of an organization's progress.
 - C. Successful organizations usually do not need financial information.
 - D. The importance of financial information depends on the size of the organization.
40. Which of the following groups of people is most likely to be interested in the statement of changes in equity:
- A. Competitors
 - B. Customers
 - C. Investors
 - D. Employees
41. A company has earned \$80,265 in net income and chooses to distribute \$19,728 in dividends to its stockholders. What entry will be recorded on a statement of changes in stockholders' equity for net increase/net decrease?
- A. Net increase of \$60,537
 - B. Net increase of \$80,265
 - C. Net increase of \$99,993
 - D. Net decrease of \$19,728

42. A company is deciding whether or not it is financially viable to move forward with a new product after receiving negative feedback. Which of the following is a sunk cost that should not be considered in the decision:
- A. New materials needed to improve the product
 - B. The marketing study that yielded the negative feedback
 - C. A promotional campaign to reposition the product's image
 - D. The cost of the time needed to alter the product
43. If a decision maker chooses a software package with a lower initial purchase price, what type of cost have they considered?
- A. Opportunity cost
 - B. Indirect cost
 - C. Sunk cost
 - D. Direct cost
44. Which of the following situations is an example of using marginal analysis to make a segment profitability decision:
- A. A restaurant chain manager must decide whether or not to keep a certain franchise open.
 - B. A clothing retailer must decide how many units of each product to sell.
 - C. A company must decide whether to use an outside marketing firm or hire someone internally.
 - D. A furniture company must decide whether to sell its pieces assembled or unassembled.
45. A manufacturing company is considering whether or not to expand its product line but needs to know that the extra costs associated with the decision will not exceed the budget. What technique can help answer this question?
- A. Horizontal analysis
 - B. Cost-benefit analysis
 - C. Variance analysis
 - D. Marginal analysis
46. A company manager is making a decision concerning promotional strategy. What managerial accounting technique can assist in the implementation phase of their decision-making process?
- A. Budgeting expected revenue
 - B. Recording and classifying transactions
 - C. Comparing results to the budget
 - D. Representing plans financially
47. Juan noticed a positive variance of \$2,000 in the email marketing section of his budget. Juan concluded that this variance demonstrated efficient use of funds. What is another possible explanation for the positive variance?
- A. Email marketing is not an important activity.
 - B. Email marketing was not effective.
 - C. The budget did not allocate enough resources for email marketing.
 - D. The planned email marketing campaigns were not completed.
48. Why do some companies decide against using variance analysis?
- A. Real causes cannot be correctly identified.
 - B. Variance analysis is not based on real, tangible data.
 - C. Variance analysis involves too much of a time delay.
 - D. Horizontal analysis requires much less time.
49. Kenneth is easily able to guide the actions of his employees by referring to his budget. This is an example of which function of budgets?
- A. Controlling
 - B. Planning
 - C. Directing
 - D. Monitoring
50. What is a possible reason for not allocating costs?
- A. A cost is not controlled by any department.
 - B. A cost is fixed rather than variable.
 - C. The budget has already been exceeded.
 - D. Costs are not high enough to be allocated.
51. Which of the following indirect manufacturing costs is a company most likely to include in the cost allocation of its individual products:
- A. Heat and lighting costs
 - B. Cost of labor
 - C. Administrative salaries
 - D. Raw product materials

52. Calculate the dollar amount of the firm's capital structure for \$1.5 million if 45% is equity and 55% is debt.
- A. \$675,000 equity; \$825,000 debt
 - B. \$625,000 equity; \$875,000 debt
 - C. \$600,675 equity; \$800,825 debt
 - D. \$600,625 equity; \$800,875 debt
53. After a business designates categories of expense in its budget, it
- A. attaches a time limit.
 - B. appoints an accountant.
 - C. applies a formula.
 - D. allocates a dollar amount.
54. You received a check on your birthday for \$2,000. If you invest it at an annual rate of 3%, how much will it be worth in a year?
- A. \$6,000
 - B. \$2,000
 - C. \$2,060
 - D. \$2,600
55. Heidi puts \$562 into a savings account with a simple interest rate of 0.5%. How much income from interest can Heidi expect to earn after five years?
- A. \$14.05
 - B. \$576.05
 - C. \$140.50
 - D. \$28.10
56. A financial-information management system can help a financial manager make which of the following types of decisions:
- A. Adding/Dropping products
 - B. Employee scheduling
 - C. Vendor selections
 - D. Capital budgeting
57. Accurate financial-information management improves a business's payment cycles by
- A. optimizing accounts payable and accounts receivable.
 - B. improving the business's trustworthiness.
 - C. allowing for better sales forecasting.
 - D. giving companies a way to evaluate their tax liability.
58. Which of the following is a common outcome of poor financial-information management in a finance department:
- A. Employees are able to increase their efficiency.
 - B. Employees receive information before it's needed in the department.
 - C. Employees cannot understand financial statements.
 - D. Employees cannot correctly assess trends.
59. During a strategic planning meeting, a company's financial manager explains why the budget needs to be more carefully managed for the good of the business. This is an example of
- A. the need for decreased transparency of financial documents.
 - B. the importance of adhering to governmental regulations.
 - C. the role of confidentiality in financial-information management.
 - D. the stewardship function of financial-information management.
60. Firewalls, intrusion detection systems, and encryption are all methods used by companies to
- A. ensure the security of their office buildings.
 - B. screen qualified job applicants.
 - C. protect and secure financial information.
 - D. sort and organize customer data.
61. Storing financial information in one central place allows businesses to easily access past data. This benefits the business because it can
- A. make decisions based on historical trends.
 - B. respond to customer claims more quickly.
 - C. save on the cost of security software.
 - D. focus on what went wrong in the past.
62. Primary functions of basic budgeting software applications include forecasting and
- A. debt management.
 - B. materials allocation.
 - C. scheduling.
 - D. sequencing.

63. Businesses use budgeting software to
- A. record employee performance.
 - B. develop reliable forecasts.
 - C. calculate their tax rates.
 - D. organize shipping data.
64. How could financial analysis applications be used to identify possible conflicts of interest?
- A. By isolating entries against authorization records for new or terminated employees
 - B. By comparing employee phone numbers and addresses to vendor information for payables
 - C. By comparing vendor payables posted to purchase orders
 - D. By comparing yearly volume with on-hand quantity for stock items
65. A finance employee with the City Mutual Insurance Company is reviewing a computer-generated report that indicates the amount of money the company has disbursed to employees who have worked overtime in the past year. What type of financial information is the employee analyzing?
- A. Payroll
 - B. Production rates
 - C. Accounts payable
 - D. Sales
66. The primary focus of the Six Sigma methodology is
- A. eliminating quality management staff.
 - B. reducing errors in business processes.
 - C. improving cash management processes.
 - D. increasing overall public relations spending.
67. How can financial information benefit a lean organization?
- A. By explaining the importance of creating a budget
 - B. By allowing costs to be properly allocated to the right department
 - C. By providing justification for hiring decisions
 - D. By demonstrating the financial value of reducing waste
68. By analyzing a customer's financial information, a finance professional should be able to
- A. declare Chapter 11 bankruptcy for the customer.
 - B. develop a financial strategy to help the customer.
 - C. protect the security of the customer's financial information.
 - D. determine the customer's newest target market.
69. As Tom is reviewing a customer's credit report to determine if the company should offer the customer a line of credit, he should use the company's _____ to guide his decision.
- A. accounting method
 - B. purchasing policies
 - C. credit standards
 - D. payment history
70. Motives, perception, attitude, lifestyle, personality, and abilities are _____ factors influencing consumer behavior.
- A. psychological
 - B. social
 - C. political
 - D. economic
71. A legal issue associated with the use of information might involve the violation of _____ laws.
- A. copyright
 - B. patent
 - C. trademark
 - D. contract
72. A primary goal of data normalization is to
- A. reduce data redundancy.
 - B. discard any unusual data.
 - C. improve data collection.
 - D. increase data quality.
73. Brian is working on restructuring a database to reduce data redundancy and improve data integrity. In other words, Brian is engaging in data
- A. clarification.
 - B. recovery.
 - C. elimination.
 - D. normalization.
74. What data mining technique uses "if-then" criteria to classify objects in a database?
- A. Quantitative reasoning
 - B. Histogram
 - C. Neural networking
 - D. Rule induction

75. Which of the following is an example of a probable conflict of interest in business operations:
- A. An employee meets a new client for lunch at an upscale restaurant.
 - B. A purchasing agent provides a customer with a discount.
 - C. A purchasing agent awards a large order to a relative's employer.
 - D. An employee uses the company discount to purchase goods.
76. Which of the following would be most effective in improving a business's security:
- A. Having fewer sales
 - B. Raising prices
 - C. Using closed-circuit television
 - D. Establishing longer hours of operation
77. Which of the following is the most important factor to consider when prioritizing work tasks:
- A. Due dates of tasks
 - B. Enjoyment of tasks
 - C. Coworkers' opinions
 - D. Employee's aptitude
78. One advantage of consolidation to financial firms is
- A. less liquid capital.
 - B. one-stop shopping.
 - C. fewer technology problems.
 - D. lower costs.
79. A business purchases \$4,250 worth of supplies and receives an invoice listing terms of 2/15, n/30. What amount will an employee save the business by paying the invoice within 15 days?
- A. \$90
 - B. \$80
 - C. \$85
 - D. \$95
80. What is a challenge of working in securities and investments?
- A. The job can be very stressful.
 - B. The pay is often low.
 - C. The profession is not respected.
 - D. Workdays are often short.
81. Corporate governance is primarily concerned with _____ desires.
- A. stakeholder
 - B. CEO
 - C. vendor
 - D. competitor
82. The Farside Corporation wants to encourage its workforce to better achieve governance objectives. Which tactic should the company use to motivate its employees and improve the distribution of wealth throughout the corporation?
- A. Team building
 - B. Cash incentives
 - C. Profit-sharing
 - D. Flexible scheduling
83. How can a company develop a culture in which employees work toward corporate governance objectives?
- A. Put the shareholders' interests as the top priority
 - B. Punish employees who do not support corporate governance objectives
 - C. Set objectives without letting the budget affect them
 - D. Incorporate governance objectives into the hiring process
84. Which of the following is an external control used to govern companies:
- A. Whistleblower policy
 - B. Safety laws
 - C. Segregation of duties
 - D. Managerial oversight
85. Which of the following would most likely influence an organization's corporate governance structure:
- A. An unexpected grant from the government is received.
 - B. A major flood damages the company's primary warehouse.
 - C. An entry-level employee is fired for their lack of professionalism.
 - D. A member of the board of directors is charged with fraud.
86. Which of the following business activities is most likely to impact an organization's governance structures:
- A. Developing a marketing strategy
 - B. Hiring a new sales representative
 - C. Borrowing money from a bank
 - D. Raising prices on consumer goods

87. Good governance is most likely to make a company's investment decisions
- A. more ethical.
 - B. subject to individuals' influence.
 - C. less regulated.
 - D. more vulnerable to outside risk.
88. Which of the following examples best illustrates the relationship between governance and management:
- A. Sapphire Axis, Inc. keeps its top executives and governance strictly separate.
 - B. Jenna, a manager, provides the board of directors with a framework for determining goals.
 - C. A company's governance processes aim to place strict limits on managers.
 - D. Wesley bases his management decisions on the strategies outlined by governance processes.
89. If you are struggling to form relationships with other finance professionals, you should
- A. stick to finance topics so you do not waste others' time.
 - B. define your expected outcomes and change your strategy to fit them.
 - C. lead with discussing your qualifications to establish your credibility.
 - D. abandon networking attempts and focus on developing your own career.
90. Jack asked a customer to provide some information about his company's competitors. In return, Jack told the customer that he would give them the lowest possible price for the company's new line of products. The customer was not comfortable with Jack's behavior and ended the 15-year partnership with the company. This is an example of how unethical business behavior can negatively affect
- A. prospecting practices.
 - B. product pricing and quality.
 - C. buyer-seller relationships.
 - D. management style.
91. If a company does not take the time to manage risks, it is
- A. seeking a larger return on investment.
 - B. treating customers fairly.
 - C. enhancing possibilities for gain.
 - D. not being ethical.
92. Using computer-data backup procedures on a regular basis reduces a company's level of risk because the process
- A. saves information when computer failures occur.
 - B. prevents hackers from accessing the computer system.
 - C. detects noncompliance issues.
 - D. allows employees to use many applications.
93. The Sarta Company's risk management information system (RMIS) contains a master list of all claims; data detailing the status of individual claims; and information regarding exposure bases such as payroll, number of employees, number of company vehicles, etc. These data are likely to be housed within the _____ section of the RMIS database.
- A. risk map
 - B. property exposure
 - C. liability
 - D. catastrophe modeling
94. Training programs that address gender-related issues at work may lower a firm's legal risks associated with
- A. financial misconduct.
 - B. religious preferences.
 - C. intellectual property.
 - D. sexual harassment.
95. Vanessa, who is opening a new fitness center, is concerned about the risks that she, her employees, and her customers could encounter while at her facility. As a result, Vanessa has developed a list of guidelines for her staff to follow: gather a medical history from each customer, provide every customer with instructions for using the exercise equipment, and maintain CPR certification. By instituting these policies, Vanessa hopes to avoid _____ lawsuits.
- A. breach-of-contract
 - B. private nuisance
 - C. negligence
 - D. discrimination
96. What is an example of a way to manage physical risks?
- A. Make sure employees know where all of the building exits are
 - B. Train multiple employees to handle important responsibilities
 - C. Back up computer data offline and online
 - D. Develop an evacuation plan for tornadoes

97. Why is the choice of a risk measure for internal and external risk of great practical importance?
- A. It identifies the types of risks that the financial institution will encounter.
 - B. It determines the maximum number of clients that can be served effectively by a financial institution.
 - C. It determines the minimum reserve requirements in financial trading.
 - D. It designates the audience that will receive the resulting financial reports.
98. Loss prevention, loss avoidance, and loss reduction are risk _____ techniques.
- A. retention
 - B. financing
 - C. transfer
 - D. control
99. Which of the following is an example of an external factor that has increased interest in enterprise risk management (ERM):
- A. Increased efficiency
 - B. Decreased transparency
 - C. Increased regulatory scrutiny
 - D. Decreased volume of information
100. Objective setting, risk assessment, risk response, and the distribution of an action plan are all components of which of the following business practices:
- A. Enterprise risk management
 - B. Managerial accounting
 - C. Assurance of risk
 - D. Entrepreneurship



KEY

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1. A

Your car is searched by a police officer, even though you did not give permission. You have the right to refuse a search by a police officer unless that officer has a search warrant or probable cause. Police officers are allowed to pull you over and ask for your license and registration. They are also allowed to stop you if you are out after curfew, even if it is just by a few minutes. They are also allowed to investigate a party if they have reason to believe underage drinking might be occurring.

SOURCE: BL:163 Comply with the spirit and intent of laws and regulations

SOURCE: LAP-BL-163—Laying Down the Law (Complying With the Spirit and Intent of Laws and Regulations)

2. A

Defamation. A tort is a private wrongdoing against a person or business. Defamation involves making false statements about another party with the intent to discredit or hurt the other party's reputation. In the example, ABC's incorrect statement about Marston's products hurt Marston's sales. In response, Marston may file a lawsuit against ABC on the grounds of defamation. The situation is not related to privacy, infringement, or trespassing.

SOURCE: BL:069 Identify the basic torts relating to business enterprises

SOURCE: Laws.com. (2020, September 12). *A brief overview of tort law*. Retrieved September 23, 2021, from <https://tort.laws.com/tort-law>

3. B

Ensure that it is following government regulations. Government regulations affect the way that businesses record and report financial data. To ensure that the business is following all of the regulations, it should conduct a compliance audit. Because a comprehensive compliance audit can detect discrepancies, it can help a business determine what it needs to do to correct a problem so it can comply with regulations. It is unethical and often illegal to manipulate financial data in ways that aim to mislead the audience. Developing efficient production processes and evaluating vendors' performance are not reasons for conducting a compliance audit.

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

SOURCE: Lohrey, J. (n.d.). *Compliance audit objectives*. Retrieved September 23, 2021, from <https://smallbusiness.chron.com/compliance-audit-objectives-78248.html>

4. C

Lack of coordination. One issue that financial institutions have when dealing with compliance is lack of coordination between different departments that manage risk and compliance separately. It is important to integrate compliance throughout the organization and work together to have a unified, strategic approach. Too much emphasis on risk management is not a problem that institutions experience when dealing with compliance. In fact, risk management is an important part of compliance. Long-term thinking and the growing importance of technology are not necessarily problems related to compliance.

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

SOURCE: MetricStream. (2021). *Integrated risk and compliance management for banks and financial services organizations: Benefits of a holistic approach*. Retrieved September 27, 2021, from https://www.metricstream.com/whitepapers/html/financial_services.htm

5. C

Increased efficiency. Technology can help make the compliance process more efficient because it allows information to be utilized and processed much faster. It does not necessarily decrease costs.

Transitioning from an old system is not necessarily easy, but it is, in many cases, worth the difficulties.

Using technology in compliance can decrease fraud with the presence of fraud detection software.

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

SOURCE: Bloomberg Professional. (2016, June 28). *Fintech spawns regtech to automate compliance with regulations*. Retrieved September 23, 2021, from <https://www.bloomberg.com/professional/blog/fintech-spawns-regtech-automate-compliance-regulations/>

6. D

The corporation's board of directors. The board of directors consists of individuals who are appointed or elected to make decisions on behalf of the company's owners—the shareholders. Professional organizations, the company's line staff, and the municipal court systems do not make decisions for a corporation on behalf of the shareholders.

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

SOURCE: BoardSource. (2019, October 28). *Fiduciary responsibilities*. Retrieved September 23, 2021, from <https://boardsource.org/resources/fiduciary-responsibilities/>

7. C

Phishing. Phishing is an online identity theft scam that fools its victims into believing they are submitting sensitive, personal information such as bank or credit card numbers to a legitimate website. A Ponzi scheme is an investment scam that lures new investors by promising high rates of return with little to no risk. Accounting fraud occurs when a company or organization knowingly publishes incorrect information on its financial statements. Affinity fraud is an investment scam in which the scammer claims to be a member of the group they are targeting. Claiming to be a member of the group makes the target audience more likely to trust the scammer and turn over its money to that person.

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

SOURCE: Clark, B., Basteri, C.G., Gassen, C., & Walker, M. (2014). *Marketing dynamics* (3rd ed.) [pp. 89-90]. Tinley Park, IL: Goodheart-Willcox.

8. B

Five-carat diamond ring. A luxury tax is levied on expensive, nonessential items such as luxury cars, valuable artwork, and expensive jewelry. A used minivan, a wool coat, and a laptop computer are not considered expensive, nonessential items.

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

SOURCE: Goettel, D. (n.d.). *What is a luxury tax?* Retrieved September 23, 2021, from <https://www.wise-geek.com/what-is-a-luxury-tax.htm>

9. A

Flow-through shares. Flow-through shares are common tax shelters used by taxpayers to reduce their tax burdens. Corporations that issue flow-through shares are typically part of the mining industry. These companies agree to use whatever funds they receive from investors for exploration purposes—in other words, to locate new sources of oil, gold, copper, etc. Rather than writing off these funds from their corporate taxes, the companies pass the tax deductions on to their investors, who can write off their entire investments against their taxes. Offshore companies, which are also commonly used as tax shelters, are businesses that are incorporated outside the country. Government bonds are interest-bearing certificates issued by the government, which promises to pay bond owners a certain sum at a specified time. Derivatives are financial instruments whose value depends upon the value of other financial instruments (e.g., currencies, securities, commodities, etc.) or a market index.

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

SOURCE: PwC. (2019, August 15). *Flow-through shares: An overview for mining executives*. Retrieved October 22, 2021, from <https://www.pwc.com/ca/en/industries/mining/publications/flow-through-shares.html>

10. A

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 each transaction compares to historical patterns in the system. Businesses do not use comparative-reasoning processes to boost data storage systems.

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

SOURCE: AccountingTools. (2021, October 19). *Comparative financial statements definition*. Retrieved October 22, 2021, from <https://www.accountingtools.com/articles/what-are-comparative-financial-statements.html>

11. A

Don't jump to quick conclusions. Don't jump to conclusions when dealing with dishonest customers. Remember that compromising and negotiating are part of normal procedure in serving customers. Explaining and demonstrating good service as many times as you need to is the best way to deal with suspicious customers. Never pressing for sales or decisions is the best way to deal with leave-me-alone customers. Mirroring behavior is the best way to deal with slow/methodical customers.

SOURCE: CR:009 Handle difficult customers

SOURCE: LAP-CR-009—Making Mad Glad (Handling Difficult Customers)

12. A

Lack of communication. Although a poor investment return, high commission fees, or the geographic location of the financial advisor's office may influence a client's decision to leave the advisor, the most common reason given for firing a financial advisor is a lack of communication. Above all else, financial clients expect—and need—their advisors to communicate on a regular basis. This means returning the clients' phone calls as soon as possible, replying quickly to their emails, and contacting them regularly to discuss their accounts and answer any questions that they might have.

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

SOURCE: O'Connell, B. (2021, January 8). *Why clients fire financial advisors*. Retrieved September 23, 2021, from <https://www.investopedia.com/articles/professionals/071113/why-clients-fire-financial-advisors.asp>

13. C

Clustering. Data mining is the process of searching computer databases to look for patterns and relationships among data. Businesses can use many types of data mining techniques to search databases. Clustering involves selecting various characteristics of a market (e.g., geographic location, value orientation) that the business wants to explore. The data mining software selects the data that meet the criteria and separates or clusters the data into appropriate categories. After clustering occurs, businesses can analyze the data, which may include statistics. Organic and primary are not types of data mining techniques.

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

SOURCE: TutorialsPoint. (2021). *Data mining—Cluster analysis*. Retrieved September 23, 2021, from https://www.tutorialspoint.com/data_mining/dm_cluster_analysis.htm

14. C

Data mining. Data mining is the process of simplifying data so that they can be used to draw useful conclusions and analysis. CRM technology includes built-in data mining functionality to help make sense of large amounts of data. The analytics features described in this example are not performing collaboration, training, or data entry.

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

SOURCE: Salesforce.com, Inc. (2021). *7 CRM best practices to get the most out of your CRM*. Retrieved September 23, 2021, from <https://www.salesforce.com/crm/best-practices/>

15. C

Opportunity cost. The opportunity cost is the lost benefit when a trade-off is made, so it must be weighed against the benefits received. Scarcity is the gap between unlimited wants and limited resources. It creates the need for trade-offs, rather than being the basis for making them. Capital goods are manufactured or constructed items that are used to produce goods and services. Noneconomic wants are desires for things that can be obtained without money. Capital goods and noneconomic wants do not directly impact trade-offs.

SOURCE: EC:001 Describe the concepts of economics and economic activities

SOURCE: LAP-EC-901—Are You Satisfied? (Economics and Economic Activities)

16. B

Financial analysis. Financial analysis is the process of planning, maintaining, monitoring, controlling, and reporting the use of financial resources. Information management is the process of accessing, processing, maintaining, evaluating, and disseminating business knowledge, facts, or data. Human resources management is the process of planning, staffing, leading, and organizing employees. Operations are the day-to-day activities required for continued business functioning, while operations of finance is not a recognized term.

SOURCE: EC:071 Describe types of business activities

SOURCE: LAP-EC-071—Strictly Business (Business Activities)

17. C

Increase revenues. By expanding operations in foreign countries, businesses have the opportunity to sell goods and services in another market. If the market buys the business's products, the business increases both its market share and its revenues. Foreign expansion doesn't eliminate the business's tax responsibility. A business exists to make a profit, so its primary goal is to earn money to keep operating. Promoting environmental issues may be an important goal to some international businesses; however, the businesses must focus on generating revenues so they are around to promote environmental issues or other issues of organizational importance.

SOURCE: EC:104 Discuss the global environment in which businesses operate

SOURCE: LAP-EC-104—Stretch Your Boundaries (The Global Business Environment)

18. C

Settling the contract. Once the contract has been approved by union members and signed by management and union leaders, the contract is settled. Both sides are legally bound to live by the terms and conditions of the contract. The collective bargaining process begins with researching the issues, followed by conducting negotiating sessions and then having the members vote on the tentative agreement.

SOURCE: EC:015 Explain the concept of organized labor and business

SOURCE: Doyle, A. (2021, April 6). *How the collective bargaining process works*. Retrieved September 23, 2021, from <https://www.thebalancecareers.com/how-the-collective-bargaining-process-works-5071952>

19. C

The United States-Mexico-Canada Agreement. The United States-Mexico-Canada Agreement (USMCA) is a regional multilateral trade alliance. Its primary purpose is to facilitate the exchange of goods, services, and resources among Canada, Mexico, and the United States. The World Trade Organization (WTO), the International Monetary Fund (IMF), and the United Nations (UN) are all international, not regional, organizations.

SOURCE: EC:112 Explain the impact of major trade alliances on business activities

SOURCE: Irwin, D. (1999-2019). *International trade agreements*. Retrieved September 27, 2021, from <https://www.econlib.org/library/Enc/InternationalTradeAgreements.html>

20. A

Constructive criticism. Constructive criticism is evaluative information designed to help someone improve. In this case, criticism is used by the manager to let you know how you can improve your job performance. Internal feedback is feedback that comes from within, or self-evaluation. Positive feedback is feedback involving praise. Destructive criticism is evaluative information that serves only to hurt or discredit someone.

SOURCE: EI:003 Explain the use of feedback for personal growth

SOURCE: LAP-EI-903—Grin and Bear It (Using Feedback for Personal Growth)

21. A

The benefits she could have received by using the additional cost of a new car another way. Opportunity costs are the benefits that are lost when you decide to choose one alternative over another. In this case, Emily could have used the money she spent on getting a new car on something else. Her opportunity costs are not the reliability and luxury of a new car—those are benefits. Emily chose a new car over a used car and wasn't considering public transportation, so the benefits of using public transportation are not her opportunity costs. The money saved by not having to constantly repair a used car is a benefit of buying a new car, not an opportunity cost.

SOURCE: FI:065 Set financial goals

SOURCE: Fernando, J. (2021, August 29). *Opportunity cost*. Retrieved September 23, 2021, from <https://www.investopedia.com/terms/o/opportunitycost.asp>

22. A

Saving is best used to reach goals in the near future, while investing is best used for longer-term goals. Money that is stored in a traditional savings account is best used for reaching short-term goals, such as paying for a vacation or a medical procedure. That's because savings accounts don't have the same potential for returns as investments do—making savings accounts less helpful for reaching long-term goals like paying for a child's education. Savings accounts allow you to access your cash quickly and easily, while money that is invested is harder to access. Savings accounts are also less risky than investments, meaning that you are much less likely to lose your money.

SOURCE: FI:270 Explain the need to save and invest

SOURCE: Hands on Banking. (2021). *Investing overview*. Retrieved September 23, 2021, from <https://handsonbanking.org/resources/investing-overview/>

23. A

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 Describe the role of financial institutions

SOURCE: U.S. Securities and Exchange Commission. (2013, July 9). *Investment companies*. Retrieved September 23, 2021, from <https://www.sec.gov/fast-answers/answersmfinvcohtm.html>

24. D

How risky it is to provide the financial institution with funds. Reputable credit rating agencies use a variety of criteria to rate the creditworthiness of financial institutions. The credit rating that a credit agency gives to a financial institution lets savers and investors know how safe or risky it is to provide funds to the institution. Credit ratings do not indicate the return rate for specific mutual funds, the specific amount of funds that banks lend to other institutions, or when a financial institution expects to see a return on investment.

SOURCE: FI:336 Describe the role of financial institutions

SOURCE: Edmondson, B. (2021, April 30). *What is a bank credit rating?* Retrieved September 23, 2021, from <https://www.thebalance.com/what-is-a-bank-credit-rating-4586357>

25. A

Soft commodities. A financial market is an organized effort or exchange that facilitates the buying and selling of financial assets. There are many types of financial markets, including the commodities market. Commodities are resources, including agricultural goods and mined goods (e.g., gold, silver) that are often used to make other goods. Agricultural goods such as cocoa beans and corn are types of soft commodities. Money markets facilitate the buying and selling of short-term, low-risk financial products (e.g., treasury bills). Selective property and insurance do not describe types of financial markets.

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

SOURCE: Hayes, A. (2021, August 17). *Commodity market*. Retrieved September 23, 2021, from <https://www.investopedia.com/terms/c/commodity-market.asp>

26. D

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 in capital markets. Treasury bills and certificates of deposit are money market securities, which are short-term securities.

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

SOURCE: Hayes, A. (2021, August 30). *Capital markets*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/c/capitalmarkets.asp>

27. B

Convergence. Convergence is the merging of financial providers from different financial sectors. For example, convergence occurs when a retail bank merges with an insurance company or when an investment bank merges with a brokerage firm. The merging of different financial sectors provides a broader selection of financial products and a "one-stop shopping" environment for consumers. Liquidation is the process of selling assets for cash, which is used to settle debts. Divergence is the separation of or difference in something. An endowment is the donation of something, usually money, to an individual or institution (e.g., college). The situation described is not an example of liquidation, divergence, or an endowment.

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

SOURCE: Deely, M. (n.d.). *The benefits (and dangers) of bank mergers and acquisitions*. Retrieved September 23, 2021, from <https://www.bigskyassociates.com/blog/the-benefits-and-dangers-of-bank-mergers-and-acquisitions>

28. D

Gather lessons learned so you won't repeat the same mistakes. When your project isn't as successful as you had hoped, you can evaluate it and gather lessons learned. In the future, you can learn from the mistakes so you don't do the same thing over and over. You should not hide your mistakes from project stakeholders, scrap the project entirely and start over, or figure out which of your team members are responsible.

SOURCE: OP:521 Evaluate project success

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

29. B

More liquid capital. Consolidation is the merging of financial providers within the same institutional category, such as a retail bank merging with another retail bank. Consolidation can provide many benefits to merged companies, such as combined resources, which often involve more liquid capital or cash. One-stop shopping and a wider variety of products are benefits of consolidation to consumers. Consolidation does not affect the complexity of the financial products.

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

SOURCE: Identity Theft Awareness. (n.d.). *Bank consolidation benefits*. Retrieved October 22, 2021, from <https://www.identity-theft-awareness.com/bank-consolidation-benefits.html>

30. B

An individual buys 10 shares of stock for \$150 per share on one market and immediately sells each share for \$200 on another market. Arbitrage is profiting from the sale of a financial instrument (e.g., stock) or good on a different market. Arbitrage often involves the buying and selling of goods and other types of services. For example, a person who buys a set of football tickets from a sport organization for \$100 and sells them on eBay to another person for \$500 is engaging in arbitrage. When an individual earns interest on their money by agreeing to leave it in a financial institution for a certain time frame, they are investing in a certificate of deposit. Businesses that set aside money for their employees' retirement are contributing to a pension plan. A business that sells bonds is using debt financing to raise funds for its expansion efforts.

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

SOURCE: Fernando, J. (2021, August 30). *Arbitrage*. Retrieved September 23, 2021, from <https://www.investopedia.com/terms/a/arbitrage.asp>

31. A

Decrease. Economic factors such as the unemployment rate can affect stock prices. If trends indicate a rise in unemployment rates, the economy may be heading into a recession. In this situation, individuals are often fearful about losing their jobs and are likely to hold onto their money rather than invest it. They may also sell their stock in anticipation of needing the money for living expenses. Businesses often react the same way—they may hold onto their funds until the economy rebounds before making major investments. All these factors can cause the value of stocks to decrease.

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

SOURCE: Levitt, A. (2021, June 24). *Macroeconomic indicators that affect the U.S. stock market*.

Retrieved September 23, 2021, from

<https://www.investopedia.com/articles/investing/031413/economic-indicators-affect-us-stock-market.asp>

32. B

Quickly withdraw their money from the emerging market. When an emerging market suffers an economic decline, market prices are likely to decline as well. Rather than investing more in the emerging market at the lowered prices and helping the emerging market recover, foreign investors are typically self-interested. Therefore, they are likely to withdraw their money from the emerging market and invest the funds in more stable markets elsewhere in the world. The loss of foreign investors' funds often wreaks even more havoc on the emerging market. An economic decline is not likely to reduce transaction costs in the emerging market.

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

SOURCE: Pinkasovitch, A. (2019, October 1). *The risks of investing in emerging markets*. Retrieved October 22, 2021, from <https://www.investopedia.com/articles/basics/11/risks-investing-in-emerging-markets.asp>

33. C

Reduce their exposure to business cycle risks. As a result of financial globalization, investors have access to many more markets and investments worldwide. By investing their funds in several different countries, investors are able to diversify their risk and reduce their exposure to business cycle risks within any particular country. Liberalization is the removal of government regulations on the flow of capital and international trade. A home bias is a preference for investments in domestic markets versus markets in other countries. An investor who invests funds in several different countries demonstrates that they do not have a home bias. While international investors can purposefully avoid emerging markets located in developing countries when investing, integrated financial markets—markets that facilitate the free flow of capital across national borders—are not so easy for international investors to avoid. Liberalization and financial globalization have increased foreigners' access to domestic financial markets.

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

SOURCE: Fisher, G.S. (2012, January 17). *Why global diversification still makes sense*. Retrieved September 27, 2021, from <https://www.forbes.com/sites/greggfisher/2012/01/17/why-global-diversification-still-makes-sense/#3a223aae4710>

34. C

EDGAR and the company's website. Before purchasing stock in a particular company, you should conduct thorough research on the company. Two important resources to access when doing this research are the company's website and Electronic Data Gathering and Retrieval (EDGAR). Many publicly traded companies have websites where you can find their annual reports and any other information and filings they have made public throughout the year. EDGAR is a section of the SEC website. All of the company's mandatory filings (required by the SEC) are housed in EDGAR. Although the Statement of Ownership is typically included in company financial statements, it would not necessarily be an example of one of the most important resources to access prior to investing. ESOP stands for employee stock ownership plan, which is a system for employees to purchase stock of the company they work for.

SOURCE: FI:274 Describe sources of securities information

SOURCE: Financial Industry Regulatory Authority. (2020, March 20). *Stock up on information before buying stock*. Retrieved September 23, 2021, from <https://www.finra.org/investors/alerts/stock-information-buying-stock>

35. A

The large amount of information available on the internet can be overwhelming. The internet has endless rich resources, including email alerts, analyst recommendations, and company statements. It can be difficult to focus your attention, so make sure to stick to the basics when evaluating sources. Not all information on the internet is accurate or reliable, but you can find quality data if you evaluate sources well. Just as with print, radio, and television sources, some information on the internet is free, and some is fee-based.

SOURCE: FI:274 Describe sources of securities information

SOURCE: Madura, J., Casey, M., & Roberts, S. (2014). *Personal financial literacy* (2nd ed.) [pp. 268-278]. Upper Saddle, NJ: Pearson.

36. D

Access a financial website. Pricing on the stock exchange fluctuates constantly, so accessing a financial website such as Bloomberg can give Kayla the most current information. A newspaper is typically printed on a daily basis, so some of the information in the stock table is likely to be outdated by the time Kayla reads it. The "About Us" section of a business's website discusses the purpose of the business. The annual report is an overview of the business's performance for the previous year. Neither the "About Us" section of a business's website nor a business's annual report will contain the most current pricing for different stocks.

SOURCE: FI:275 Interpret securities table

SOURCE: Madura, J., Casey, M., & Roberts, S. (2014). *Personal financial literacy* (2nd ed.) [pp. 268-278]. Upper Saddle, NJ: Pearson.

37. B

Compare the previous close with the opening price. Previous close is the price at which a stock sold at the close of the previous day. Opening price is the price for which it sold at the beginning of the current day. Comparing these two numbers allows you to see if a stock is trending upward or downward. The best bid is the highest price that investors are willing to pay, whereas the best ask is the lowest price at which investors are willing to sell. This does not necessarily tell you whether or not the stock is trending upward. Share volume is the total number of shares traded during the current day. On its own, it does not tell you whether a stock is trending upward or downward. Earnings per share is the portion of the company's profit allocated to each share of stock. The P/E ratio is the current share price relative to its earnings per share. Comparing these two will not necessarily tell you whether or not the stock is trending upward.

SOURCE: FI:275 Interpret securities table

SOURCE: Hayes, A. (2021, August 26). *How to understand a stock quote*. Retrieved September 23, 2021, from <https://www.investopedia.com/articles/investing/093014/stock-quotes-explained.asp>

38. B

Gathered and organized in some way. In their raw state, financial data aren't very useful. The data need to be gathered and organized in a way that makes sense and is useful for the business. Information that is formatted in HTML, listed in order of size, or inserted into a spreadsheet is not necessarily more useful. The important thing is gathering and organizing the data in a meaningful way.

SOURCE: FI:579 Describe the need for financial information

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

39. A

Financial information is essential for an organization to continue operating. If a business does not make a profit, stay within its budget, or correctly file financial statements, it cannot continue operating. Financial information does not generally get in the way of an organization's progress. Successful organizations usually do need financial information. The importance of financial information does not necessarily depend on the size of the organization; all organizations need financial information.

SOURCE: FI:351 Discuss the role of ethics in accounting

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

40. C

Investors. A statement of changes in equity provides information about shareholders' ownership and how it has changed during a period of time. Therefore, investors of an organization would be interested to know how their accounts have changed over time. Customers, competitors, and employees would be less interested in changes in equity because they do not necessarily hold equity in the company.

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

SOURCE: XPLAIND.com. (n.d.). *Statement of changes in shareholders equity*. Retrieved September 23, 2021, from <https://xplained.com/969555/changes-in-shareholders-equity>

41. A

Net increase of \$60,537. The statement of changes in equity, also known as the statement of changes in stockholders' or shareholders' equity, indicates changes in stockholders' equity accounts during a specified time period. The net increase/net decrease listed on a statement of changes in stockholders' equity is calculated by subtracting distributed dividends from the net income (\$80,265 – \$19,728 = \$60,537). Since this difference is a positive number, it should be recorded as a net increase on the statement of changes in stockholders' equity.

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

SOURCE: AccountingTools. (2021, January 28). *Statement of changes in equity*. Retrieved October 22, 2021, from <https://www.accountingtools.com/articles/statement-of-changes-in-equity.html>

42. B

The marketing study that yielded the negative feedback. A sunk cost is a cost that has already been incurred and cannot be recovered. Because the marketing study has already occurred, it has already been paid for, and the money cannot be recovered, despite the unfavorable results. However, the new materials, promotional campaign, and time needed to make the product more successful are all prospective costs that can be recovered if the company decides to discontinue the product. Therefore, these are not sunk costs and should be factors in the decision-making process.

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

SOURCE: AccountingTools. (2021, June 25). *Sunk cost definition*. Retrieved October 22, 2021, from <https://www.accountingtools.com/articles/what-is-a-sunk-cost.html>

43. D

Direct cost. The initial purchase price of a software package would be considered a direct cost because it is directly associated with the cost object (the software package). An indirect cost refers to costs that are not directly accountable to a cost object, such as personnel and security costs. A sunk cost refers to a cost that has already been incurred and cannot be recovered, so it is not typically considered when deciding between two new choices. An opportunity cost refers to a benefit an organization could have received but gave up to take a different course of action.

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

SOURCE: Blakely-Gray, R. (2021, April 27). *How to keep your direct vs. indirect costs straight*. Retrieved September 23, 2021, from <https://www.patriotsoftware.com/blog/accounting/direct-vs-indirect-costs-difference/>

44. A

A restaurant chain manager must decide whether or not to keep a certain franchise open. Marginal analysis can be used to make many types of decisions. One type of decision that it can be used for is a segment profitability decision, which is the process of deciding if it is more profitable to keep or drop an unsuccessful segment of the business. The restaurant manager must decide if the franchise (a segment of their business) is profitable enough to remain open. The clothing retailer who must decide how many units of each product to sell is making a sales mix decision. A company deciding whether to use an outside marketing firm or hire someone internally is making a make-or-buy decision. The furniture company deciding whether or not to assemble its pieces before sale is making a sell-or-process-further decision. All of these cases can benefit from marginal analysis.

SOURCE: FI:659 Describe marginal analysis techniques and applications

SOURCE: Crosson, S.V., & Needles, B.E. (2014). *Managerial accounting* (10th ed.) [pp. 335-344]. Mason, OH: South-Western Cengage Learning.

45. D

Marginal analysis. Marginal analysis explains the additional benefits of an activity compared to the additional costs incurred by that activity. It functions as a decision-making tool. Marginal analysis could help a manufacturing company see whether or not the benefits of expanding a product line outweigh the costs. Cost-benefit analysis discusses the costs and benefits, but it does not explain how much the benefits outweigh the costs or vice versa. Variance analysis determines the difference between the plan and the actual behavior. Horizontal analysis is side-by-side comparison of financial results of several reporting periods.

SOURCE: FI:659 Describe marginal analysis techniques and applications

SOURCE: Lewis, J. (2016, October 26). *How to make a spending decision with marginal analysis*. Retrieved October 22, 2021, from <http://smallbusiness.chron.com/make-spending-decision-marginal-analysis-38351.html>

46. B

Recording and classifying transactions. Managerial accounting can aid in the implementation phase of a decision-making process through the practice of recording and classifying transactions. For example, if a payment is made to a designer, the payment will be recorded and classified for future reference. Budgeting expected revenue is a managerial accounting technique that would assist during the planning stages of the decision-making process. Comparing results to the budget would occur during the evaluation stage of the decision-making process. Representing plans financially is manifested in the budget and other reports that are completed during the planning phase, rather than during implementation.

SOURCE: FI:660 Explain the nature of managerial accounting

SOURCE: Datar, S.M., & Rajan, M.V. (2014). *Managerial accounting: Making decisions and motivating performance* (p. 11). Upper Saddle River, NJ: Pearson Education.

47. D

The planned email marketing campaigns were not completed. If money was not spent on email marketing, it is possible that the campaigns planned in the budget were never carried out, which would not demonstrate efficient use of funds. Positive variance does not necessarily relate to the ineffectiveness of email marketing. If there is a positive variance, it would suggest that the budget allocated too much toward email marketing rather than not enough. Finally, the positive variance does not necessarily imply that email marketing is or is not important to an organization.

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

SOURCE: Chen, J. (2020, November 30). *Budget variance*. Retrieved September 23, 2021, from <https://www.investopedia.com/terms/b/budget-variance.asp>

48. C

Variance analysis involves too much of a time delay. Accounting staff typically calculate variances based on monthly accounting reports. However, some businesses find that is too much of a time delay to correct a problem quickly and effectively. In those cases, companies may decide against using variance analysis. Variance analysis is based on tangible, objective data. Real causes can be uncovered with careful variance analysis. Since horizontal analysis compares multiple periods of business activity to identify trends, it actually requires more time to conduct than variance analysis.

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

SOURCE: Accounting Tools. (2021, June 16). *Variance analysis definition*. Retrieved September 23, 2021, from <https://www.accountingtools.com/articles/what-is-variance-analysis.html>

49. C

Directing. Budgeting involves setting goals, executing those goals, and comparing results to those goals. Kenneth is executing his goals by directing his employees' actions with the help of his budget. Planning is setting goals. Controlling is comparing performance to expectations. Monitoring is tracking progress. They are all functions of budgets, but they are not specifically related to Kenneth's example.

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

SOURCE: Warren, C.S., Reeve, J.M., & Duchac, J. (2014). *Managerial accounting* (12th ed.) [p. 230]. Mason, OH: South-Western Cengage Learning.

50. A

A cost is not controlled by any department. If no departments in an organization can control a cost, it is acceptable to refrain from allocating it to any specific department. Whether a cost is fixed or variable does not determine whether or not it will be allocated. Refraining from allocating costs will not help if an organization is over budget. The amount of the cost does not necessarily determine whether or not it will be allocated.

SOURCE: FI:663 Discuss the nature of cost allocation

SOURCE: Accounting Tools. (2021, April 12). *Cost allocation definition*. Retrieved September 27, 2021, from <https://www.accountingtools.com/articles/what-is-cost-allocation.html>

51. A

Heat and lighting costs. Heat and lighting costs are indirect costs that are usually allocated to the production of individual products to determine a more accurate product cost. The cost of labor and raw product materials are considered direct costs associated with the cost object (the manufactured product). Administrative expenses are not generally assigned to individual products, because they occur regardless of whether anything is produced or not.

SOURCE: FI:663 Discuss the nature of cost allocation

SOURCE: Averkamp, H. (2021). *How can a manufacturer determine the precise cost of its products?* Retrieved September 27, 2021, from <https://www.accountingcoach.com/blog/how-can-a-manufacturer-determine-the-precise-cost-of-its-products>

52. A

\$675,000 equity; \$825,000 debt. Capital structure is the way in which a business funds its operations through debt and equity. To determine of the firm's equity dollar amount, multiply the total amount in dollars by the firm's equity percentage ($\$1,500,000 \times .45$ [or 45%] = \$675,000). To determine the firm's debt dollar amount, multiply the total amount in dollars by the percentage of debt ($\$1,500,000 \times .55$ [or .55%] = \$825,000).

SOURCE: FI:341 Explain the significance of a firm's capital structure

SOURCE: Tuovila, A. (2021, September 4). *Capital structure*. Retrieved October 22, 2021, from <https://www.investopedia.com/terms/c/capitalstructure.asp>

53. D

Allocates a dollar amount. After a business designates categories of expense in its budget, it allocates a dollar amount. When developing a budget, a business organizes its budget information by creating categories for items such as rent, insurance, and utilities. Once the categories are designated, management allocates a dollar amount to each one. After designating expense categories, businesses do not necessarily apply a formula, appoint an accountant, or attach a time limit to each category.

SOURCE: FI:106 Describe the nature of budgets

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

54. C

\$2,060. The formula for calculating future value is $\text{Future Value} = \text{Present Value} \times (1 + \text{Discount Rate})$. To determine how much your investment will be worth in a year, convert the annual rate to a decimal (3% = 0.03), and add one ($1 + 0.03 = 1.03$). Finally, multiply that sum by the original amount of your investment ($\$2,000 \times 1.03 = \$2,060$).

SOURCE: FI:238 Calculate the time value of money

SOURCE: Carlson, R. (2020, September 29). *How to calculate the future value of an investment*. Retrieved September 27, 2021, from <https://www.thebalancesmb.com/how-to-calculate-the-future-value-of-an-investment-393391>

55. A

\$14.05. To determine how much income from interest Heidi will earn in five years, first multiply the original deposit by the interest rate ($\$562 \times 0.5$ [or .005%] = \$2.81). Then, multiply the interest by the number of years to determine the total interest Heidi will earn after five years ($\$2.81 \times 5 = \14.05). Heidi will earn \$14.05 in income from interest after five years.

SOURCE: FI:238 Calculate the time value of money

SOURCE: Furey, E. (n.d.). *Simple interest calculator* $A = P(1 + rt)$. Retrieved October 22, 2021, from <https://www.calculatorsoup.com/calculators/financial/simple-interest-plus-principal-calculator.php>

56. D

Capital budgeting. A financial-information management system is a set of processes, people, and equipment used to gather, store, organize, and provide financial information to decision makers. A financial manager might use a financial-information management system to make capital budgeting decisions. Capital budgeting involves developing a plan to acquire and finance long-term business assets. Financial managers would not use a financial-information management system to schedule employees. Although a financial-information management system might be useful when selecting vendors or adding/dropping products, those decisions would not be made by financial managers.

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

SOURCE: LaMarco, N. (2019, February 13). *What are the benefits of a financial management information system?* Retrieved September 27, 2021, from <https://smallbusiness.chron.com/benefits-financial-management-information-system-71943.html>

57. A

Optimizing accounts payable and accounts receivable. Businesses have payment cycles, which include accounts payable (the money the company owes to others) and accounts receivable (the money that is owed to a company). When financial-information management is in order, these accounts are accurate and optimized. While accurate financial-information management improves a business's trustworthiness, allows for better sales forecasting, and gives companies a way to evaluate their tax liability, these are not directly related to improving a business's payment cycles.

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

SOURCE: Lee, O. (2015, May 8). *Importance of accurate financial statements for a business*. Retrieved September 27, 2021, from <https://www.invensis.net/blog/importance-accurate-financial-statements-business/>

58. D

Employees cannot correctly assess trends. When financial information is poorly managed, employees are hindered from correctly assessing their performance and trends. It also takes a long time to access requested information, thereby delaying use of the information and decreasing employee efficiency. Employees' inability to understand financial statements is not an outcome.

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

SOURCE: Sherman, F. (2020, August 25). *What are the dangers of inaccurate financial reporting?* Retrieved September 27, 2021, from <https://smallbusiness.chron.com/dangers-inaccurate-financial-reporting-79357.html>

59. D

The stewardship function of financial-information management. The stewardship function of financial-information management refers to the ways that financial managers look out for the best interests of the business through their actions. It includes the responsible use of resources. When an accountant explains to other executives why it is important to carefully manage the budget, they are being a steward because they are attempting to manage resources responsibly for the good of the business. This example is not related to the importance of adhering to governmental regulations, the role of confidentiality in financial-information management, or the need for decreased transparency of financial documents.

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

SOURCE: Latham, A. (2017, September 26). *The stewardship function in accounting*. Retrieved September 27, 2021, from <https://bizfluent.com/info-8585592-stewardship-function-accounting.html>

60. C

Protect and secure financial information. Firewalls, intrusion detection systems, and encryption are all examples of technological advancements that allow companies to better protect sensitive financial information. They are not methods used to screen qualified job applicants, ensure the security of office buildings, or sort and organize customer data.

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

SOURCE: Zaharia, A. (2016, April 19). *15 steps to maximize your financial data protection*. Retrieved September 27, 2021, from <https://heimdalsecurity.com/blog/online-financial-security-guide/>

61. A

Make decisions based on historical trends. A central data repository allows businesses to store financial information in one place, which includes historical data. This allows businesses to more easily analyze past data to identify trends and inform future decision-making. The ability to access past data is not necessarily related to the ability to respond to customer claims more quickly, to save on the cost of security software, or to focus on what went wrong in the past.

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

SOURCE: Novak, S. (2021, October 21). *8 benefits of a central data repository*. Retrieved October 22, 2021, from <https://www.premier-international.com/articles/8-benefits-of-a-central-data-repository>

62. A

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 Demonstrate budgeting applications

SOURCE: Worley, J. (2019, December 7). *12 must-have features of budgeting software*. Retrieved October 22, 2021, from <https://www.quicken.com/blog/must-have-budgeting-software>

63. B

Develop reliable forecasts. A primary use of budgeting software involves developing forecasts such as estimating future sales. Businesses do not use budgeting software to record employee performance, calculate tax rates, or organize shipping data.

SOURCE: FM:013 Demonstrate budgeting applications

SOURCE: Mmrosavljevic. (2021, January 5). *Best budget software for small business*. Retrieved September 27, 2021, from <https://www.caminofinancial.com/best-budgeting-software-for-small-business/>

64. B

By comparing employee phone numbers and addresses to vendor information for payables. A conflict of interest is a situation in which it is impossible to be truly impartial. It would prevent someone from performing their duties and responsibilities objectively. To spot probable conflicts of interest, businesses can use their financial analysis applications to cross check employee data with those of vendors. The other examples can be used to analyze financial data for other purposes.

SOURCE: FM:014 Demonstrate financial analysis applications

SOURCE: Audimation Services. (2019, August 22). *Conflicts of interest*. Retrieved October 22, 2021, from <https://www.audimation.com/conflicts-of-interest/>

65. A

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 Demonstrate financial analysis applications

SOURCE: McBeth, K. (2020, June 30). *What is payroll? A 2021 guide to processing payroll*. Retrieved September 27, 2021, from <https://quickbooks.intuit.com/r/payroll/what-is-payroll/>

66. B

Reducing errors in business processes. Six Sigma-focused organizations concentrate on reducing the number of errors that occur in their business processes to improve the quality of their products and services. Six Sigma-focused organizations do not focus on eliminating quality management staff, improving cash management processes, or increasing overall public relations spending.

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

SOURCE: Hayes, A. (2021, March 24). *Six Sigma*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/s/six-sigma.asp>

67. D

By demonstrating the financial value of reducing waste. Lean organizations focus on reducing waste. When implementing lean methodologies, it is important to demonstrate the value of doing so to management. One way to do so is to use financial information to demonstrate the financial value of reducing waste. While financial information can be used to allocate costs properly and to provide justification for hiring decisions, these are not necessarily related to lean organizations. Explaining the importance of creating a budget is not related to lean organizations.

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

SOURCE: Kanbanize. (n.d.). *What is lean management? Definition and benefits*. Retrieved October 22, 2021, from <https://kanbanize.com/lean-management/what-is-lean-management>

68. B

Develop a financial strategy to help the customer. Whether the finance professional works internally or externally, or works with individuals or businesses, they should be able to analyze the customer's financial information to recommend an appropriate financial strategy for the customer. Business management would declare a company in bankruptcy based on information provided by the finance professional. Just having a customer's financial information requires finance professionals to protect its privacy—analysis is not required. The customer's marketing department would determine its newest target market, while the finance professional would measure the target market's profitability.

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

SOURCE: Kolakowski, M. (2019, September 6). *What does a financial planner do?* Retrieved September 27, 2021, from <https://www.thebalancecareers.com/financial-planner-1287000>

69. C

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 Describe techniques used to analyze customer financial information

SOURCE: The Investopedia Team. (2021, January 24). *Credit criteria*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/c/credit-criteria.asp>

70. A

Psychological. Consumer behavior encompasses individuals' actions that determine what they buy and sell. Psychological, social, and personal factors all influence consumer behavior. Psychological factors include an individual's motives, perception, attitude, lifestyle, personality, abilities, and knowledge. Consumer behavior is also impacted by social factors such as opinion leaders, a person's family, reference groups, social class, and culture. Personal factors impacting consumer behavior are specific to a particular person and include demographic characteristics such as gender, age, ethnicity, etc. While political and economic factors may influence consumer behavior in some instances, motives, perception, attitude, lifestyle, personality, and abilities are not political or economic factors.

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

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

71. A

Copyright. Copyright is the legal protection of books and other artistic works granted by government and gives their creators sole rights to them for a certain period of years. If a business uses information that is copyrighted without obtaining permission from the copyright holder, the business is violating copyright laws. Copyright infringement is a legal issue because businesses can be sued and required to pay a substantial penalty. Patent, trademark, and contract laws do not involve the use of information.

SOURCE: NF:076 Explain legal issues associated with information management

SOURCE: Tysver, D., & Urzedowski, J. (1996-2021). *Copyright law in the United States*. Retrieved September 23, 2021, from <https://www.bitlaw.com/copyright/index.html>

72. A

Reduce data redundancy. Data normalization is the process of efficiently organizing data in a database. One of the primary goals of data normalization is reducing data redundancies. In other words, data normalization makes sure that the same data are not recorded or stored in more than one place. It is not the goal of data normalization to discard unusual data, improve data collection, or increase data quality.

SOURCE: NF:124 Demonstrate advanced database applications

SOURCE: Chapple, M. (2020, April 12). *Database normalization basics*. Retrieved September 27, 2021, from <https://www.lifewire.com/database-normalization-basics-1019735>

73. D

Normalization. Data normalization is the process of reorganizing and restructuring a database to reduce data redundancy and improve data integrity. Normalization seeks to get rid of nonconforming data and improve the usability of the database. This process is not referred to as data recovery, elimination, or clarification.

SOURCE: NF:124 Demonstrate advanced database applications

SOURCE: Watts, S. (2021, April 21). *What is data normalization?* Retrieved October 22, 2021, from <https://www.bmc.com/blogs/data-normalization/>

74. D

Rule induction. Rule-induction data mining techniques are often used to determine if-then relationships among a set of data. A histogram is a graphic that is similar to a bar chart but groups data into specific ranges. The neural networking approach uses computer applications that mimic the ways in which the human brain processes data, which often involve sequencing data patterns. Quantitative reasoning is a fictitious term.

SOURCE: NF:149 Describe data mining tools and techniques

SOURCE: Tutorials Point. (2021). *Data mining - Rule based classification*. Retrieved September 23, 2021, from https://www.tutorialspoint.com/data_mining/dm_rbc.htm

75. C

A purchasing agent awards a large order to a relative's employer. A conflict of interest occurs when decision-making is affected by personal gain or interest. If the purchasing agent's relative is a spouse who may earn a bonus on the order, then the purchasing agent has a personal interest in the transaction. Many businesses address conflicts of interest in their ethics policies. If the company's ethical policies are followed, providing customer discounts, having lunch with clients, and using the company discount to purchase goods are not examples of unethical behavior, nor are they examples of a conflict of interest.

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

SOURCE: Segal, T. (2020, November 30). *Conflict of interest*. Retrieved September 23, 2021, from <https://www.investopedia.com/terms/c/conflict-of-interest.asp>

76. C

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 Explain routine security precautions

SOURCE: Paessler. (2021). *IT explained: CCTV*. Retrieved September 23, 2021, from <https://www.paessler.com/it-explained/cctv>

77. A

Due dates of tasks. Prioritizing involves ranking things in the order of their relative importance. Employees evaluate many factors when prioritizing their work, including the task's due date and the time that it will take to complete the task. For example, if an employee needs to submit an advertisement to a publication by the end of the day, and it takes six hours to create the advertisement, then the employee will need to work on the advertisement before they work on anything else that takes a lot of time to complete. Task enjoyment, coworkers' opinions, and the employee's aptitude are not important factors that employees should consider when they prioritize their work tasks.

SOURCE: OP:228 Organize and prioritize work

SOURCE: Bishop, C. (2020, February 6). *How to prioritize work when everything's important*. Retrieved September 23, 2021, from <https://www.wework.com/ideas/professional-development/creativity-culture/how-to-prioritize-work>

78. D

Lower costs. Consolidation is the merging of financial providers within the same institutional category. For example, consolidation occurs when two banks merge to form one bank. By consolidating, the financial firms can achieve economies of scale, which reduces redundancy and lowers costs. Another advantage of consolidation to firms is that it provides more liquid capital for all companies involved. One-stop shopping is an advantage to consumers. Consolidation does not always lead to fewer technology problems.

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

SOURCE: Kenton, W. (2020, November 27). *Consolidate*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/c/consolidate.asp>

79. C

\$85. Employees who have responsibility for paying invoices are in a good position to help the business save money and control expenses. If a business receives a discount for paying an invoice within a certain period of time, an employee who pays the invoice before the deadline will help the business control expenses. In this situation, the business receives a 2% discount for paying within 15 days. To calculate the amount of savings, multiply the amount of the invoice by the percentage of discount ($\$4,250 \times 2\%$ [or $.02$] = \$85).

SOURCE: OP:025 Explain employee's role in expense control

SOURCE: Simple Studies. (2021). *What do 2/10, n/30 invoice terms mean?* Retrieved September 23, 2021, from <https://simplestudies.com/what-do-2-10-n-30-terms-mean.html>

80. A

The job can be very stressful. Careers in securities and investments can be very stressful and require long hours. However, since they also tend to be high paying and highly respected, many people think they're worth it.

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

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

81. A

Stakeholder. Corporate governance is the system of rules and practices that control the company. Corporate governance revolves around balancing the desires of the stakeholders in a company. Corporate governance is not just concerned with CEO or vendor desires; instead, it focuses on the desires of *all* stakeholders, including customers, financiers, the community, the government, and managers. Corporate governance is not necessarily concerned with competitor desires.

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

SOURCE: Chen, J. (2021, July 4). *Corporate governance*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/c/corporategovernance.asp>

82. C

Profit-sharing. Employees are key in the achievement of governance objectives. Businesses use many different tactics to encourage or motivate their workers to reach those objectives and goals. Profit-sharing is a good tactic to adopt if the company seeks to improve employee motivation by improving the distribution of wealth throughout the corporation. Cash incentives, team building, and flexible scheduling may improve overall employee motivation, but they do not improve the distribution of wealth throughout the corporation.

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

SOURCE: Kenton, W. (2021, April 24). *Profit-sharing plan*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/p/profitsharingplan.asp>

83. D

Incorporate governance objectives into the hiring process. One way that companies can involve employees in governance objectives is during the hiring process. If HR professionals keep governance in mind as they screen candidates, the candidates will be more likely to be aligned with the company's objectives. They will therefore be more likely to support the objectives in the work they do. Punishing employees who do not support corporate governance objectives will not necessarily develop a culture in which employees are engaged in the corporate governance objectives. The budget should be kept in mind when setting corporate governance objectives. Finally, while the shareholders' interests are an important priority, they should not necessarily be considered more important than other stakeholders.

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

SOURCE: Safetrac. (n.d.). *How to achieve good corporate governance*. Retrieved September 27, 2021, from <https://www.safetrac.com.au/achieving-good-corporate-governance/>

84. B

Safety laws. External controls are those that govern an organization from the outside. They are usually set by governments. Safety laws are external because they are set by the government, not an organization itself. Whistleblower policies, segregation of duties, and managerial oversight are internal means of control.

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

SOURCE: Davoren, J. (n.d.). *Three types of corporate governance mechanisms*. Retrieved September 27, 2021, from <https://smallbusiness.chron.com/three-types-corporate-governance-mechanisms-66711.html>

85. D

A member of the board of directors is charged with fraud. An organization's board of directors is designed to hold the company accountable for its actions and steer the organization clear of ethical pitfalls. If a member of a company's board of directors is charged with fraud or another crime, the company would most likely take immediate action to replace that member. A major flood, the firing of an entry-level employee, or an unexpected grant from the government would not influence a company's corporate governance structure.

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

SOURCE: Chen, J. (2021, July 4). *Corporate governance*. Retrieved October 22, 2021, from <http://www.investopedia.com/terms/c/corporategovernance.asp>

86. C

Borrowing money from a bank. Banks often require an organization with a loan to follow external control mechanisms that impact its governance structures. Hiring employees, developing a marketing strategy, and raising prices are all common business activities that are not likely to impact an organization's governance structures.

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

SOURCE: Davoren, J. (n.d.). *Three types of corporate governance mechanisms*. Retrieved September 27, 2021, from <https://smallbusiness.chron.com/three-types-corporate-governance-mechanisms-66711.html>

87. A

More ethical. Governance objectives are often based on integrity and ethical principles. Therefore, if a company has strong governance practices, it is likely to be ethical in its investment decisions. Good governance should not make investment decisions subject to the influence of individuals. Rather, it should remove interference from individuals by giving the board independence to make decisions free of influence. Good governance does not necessarily make investment decisions less regulated; in fact, it gives the board of directors the power to enact financial controls and monitor reporting. Finally, governance makes a company's investment decisions less vulnerable to risk because the governance objectives and policies should preemptively lessen the potential for risks.

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

SOURCE: Cole-Ingait, P. (n.d.). *The impact of corporate governance practices on the investment decisions of companies*. Retrieved September 27, 2021, from <https://smallbusiness.chron.com/impact-corporate-governance-practices-investment-decisions-companies-79389.html>

88. D

Wesley bases his management decisions on the strategies outlined by governance processes. Governance provides a framework for decision-making and management. Managers such as Wesley must work within the guidelines and processes established by the governing body. The manager generally does not provide the board of directors with a framework for determining goals; rather, the board of directors or other governing body provides the framework to managers. Governance processes do not necessarily aim to place strict limits on managers. Also, management and governance are rarely separate; there is usually substantial overlap as managers assist with and serve on governing bodies.

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

SOURCE: Governance Guiding Principles. (n.d.). *Governance versus management*. Retrieved September 27, 2021, from <https://www.governanceprinciples.scot/governance-vs-management>

89. B

Define your expected outcomes and change your strategy to fit them. If you are not finding success in your attempts to form professional relationships, you may need to rethink your strategy and goals. For example, you may be approaching people who are uninterested in forming relationships. You might find more success by attending an event specifically focused on networking. You should not necessarily center all of your conversations on finance, because most people want to discuss topics other than work outside of the workplace. It is important to connect on personal levels as well. You should not lead with discussing your qualifications, because while it may establish your credibility, it could also come off as self-centered or pretentious, which will not help you establish relationships. Finally, you should not abandon all networking attempts, because it is nearly impossible to develop a strong career in finance without professional relationships. Instead of giving up, try a new approach or refine your communication skills.

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

SOURCE: Rodriguez, E. (n.d.). *Networking tips for finance professionals*. Retrieved October 22, 2021, from <https://business.fiu.edu/graduate/insights/networking-tips-for-finance-professionals.cfm>

90. C

Buyer-seller relationships. When employees behave unethically in business situations, they jeopardize the business's image and financial well-being. In the example, an employee asked a customer to do something that the customer did not feel was right, so the customer ended a long-term relationship with the business, which cost the business future sales and profits. The employee's behavior did not affect product pricing and quality, prospecting practices, or management style.

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

SOURCE: Rafner, D. (2017, July 5). *Types of unethical workplace ethics*. Retrieved October 22, 2021, from <https://careertrend.com/list-6397777-types-unethical-workplace-ethics.html>

91. D

Not being ethical. If an organization does not practice risk management, it is not being ethical, because it is not preparing for the possibility of loss or treating its stakeholders fairly. It is not necessarily seeking a larger return on investment, treating customers fairly, or enhancing possibilities for gain.

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

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

92. A

Saves information when computer failures occur. Backup procedures involve saving the business's computer information at set intervals. If the computer system is damaged or fails to operate correctly, the backup is available to retrieve stored information so the business can continue to operate. The backup reduces the risk of losing all types of information—financial, shipping, ordering, human resources, etc. The purpose for implementing backup procedures is not to prevent hacking, detect noncompliance, or allow employees to access multiple applications, although there are various software applications that specifically address those issues.

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

SOURCE: Norton. (n.d.). *Data backup: Why it's important plus strategies to protect your information*. Retrieved September 27, 2021, from <https://us.norton.com/internetsecurity-how-to-the-importance-of-data-back-up.html>

93. C

Liability. A risk management information system (RMIS) is a database that is used to store and analyze risk data. Data pertaining to liabilities that a RMIS is likely to house include information about current and historic claims, exposure bases, and liability insurance coverages and coverage terms. Data related to property exposure are a listing of the company's properties, information about company vehicles, loss records, and property insurance policies data. A risk map is a tool used to determine the likelihood of risks faced by a company. Catastrophe modeling involves using computers to estimate losses that a company might suffer as a result of a disaster, such as a hurricane or earthquake.

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

SOURCE: Rhodes, A. (n.d.). *What is a risk management information system (RMIS)?* Retrieved September 27, 2021, from <https://www.ventivtech.com/blog/what-is-an-rmis-risk-management-information-system>

94. D

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 religious preferences, intellectual property, or financial misconduct.

SOURCE: RM:043 Discuss legal considerations affecting risk management

SOURCE: Carter, S. (n.d.). *Preventing sexual harassment in the workplace*. Retrieved September 27, 2021, from https://www.roughnotes.com/rnmagazine/search/management/08_08P070.htm

95. C

Negligence. A customer may file a negligence lawsuit against a business if they feel that the business has failed to protect them from harm or wrongdoing. To minimize their chances of being sued for negligence, risk managers and business owners develop specific policies and procedures to protect customers from being injured and to avoid being blamed for customer injuries, if they occur. An individual may file a private nuisance lawsuit if they have been unable to live peacefully at home as a result of a neighbor's barking dog, teenagers having a loud party nearby, etc. If someone fails to fulfill their contract (e.g., does not complete promised work, does not pay for services rendered, etc.), the individual or company who entered into that contract with the violator might file a breach-of-contract against them. People file discrimination lawsuits when they feel that they were treated unfairly because of their race, religion, gender, or other characteristic.

SOURCE: RM:043 Discuss legal considerations affecting risk management

SOURCE: The Law Dictionary. (n.d.). *What is a negligence lawsuit?* Retrieved October 22, 2021, from <https://thelawdictionary.org/article/what-is-a-negligence-lawsuit/>

96. A

Make sure employees know where all of the building exits are. Building risks are the most common type of physical risk. To manage this risk, it's important to make sure employees know how to quickly exit the building in case of an emergency. Training multiple employees to handle important responsibilities is a way to protect against the risk of illness. Backing up computer data offline and online is a way to manage technological risks. Developing an evacuation plan for tornadoes is an example of managing a location risk.

SOURCE: RM:056 Identify business risks

SOURCE: Davis, M. (2021, May 9). *Identifying and managing business risks*. Retrieved October 22, 2021, from <http://www.investopedia.com/articles/financial-theory/09/risk-management-business.asp>

97. C

It determines the minimum reserve requirements in financial trading. Different measures can result in a lower or higher minimum reserve requirement, which results in a lower or higher profit for the financial institution. Although it does not designate the audience that will receive the resulting financial reports, some financial measures should be used for internal purposes, while other measures are more appropriate for external audiences. The number of clients to serve and the types of risks to be encountered are not aspects of selecting a risk measure.

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

SOURCE: Ingram, D. (n.d.). *External and internal factors of financial risk*. Retrieved September 27, 2021, from <https://smallbusiness.chron.com/external-internal-factors-financial-risk-4563.html>

98. D

Control. Risk control methods are used to reduce or minimize loss. Three common risk control techniques include loss prevention, loss avoidance, and loss reduction. Loss prevention focuses on stopping certain losses from occurring. Companies utilize loss avoidance when they choose not to take part in risky activity. Loss reduction lessens the impact of a loss after it occurs. Risk financing involves setting aside funds to pay for unavoidable losses. Companies transfer risk by purchasing insurance and entering into contracts that transfer the risk to others. Risk retention involves financing the loss through self-insurance and other methods.

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

SOURCE: Kenton, W. (2021, January 31). *Risk control*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/r/risk-control.asp>

99. C

Increased regulatory scrutiny. With greater attention placed on compliance and risk management policies, companies have turned to enterprise risk management to help them manage the vast number of risks that could affect them. Decreased transparency, increased efficiency, and decreased volume of information are not factors that have increased interest in enterprise risk management.

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

SOURCE: Hayes, A. (2021, June 2). *Enterprise risk management (ERM)*. Retrieved September 27, 2021, from <https://www.investopedia.com/terms/e/enterprise-risk-management.asp>

100. 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. These activities are not components of managerial accounting or assurance of risk. While an entrepreneur may engage in enterprise risk management, entrepreneurship as a whole is much broader than a single business practice.

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

SOURCE: Hayes, A. (2021, June 2). *Enterprise risk management (ERM)*. Retrieved October 22, 2021, from <https://www.investopedia.com/terms/e/enterprise-risk-management.asp>