

BOK: Accounting and Finance Lesson Answers

Answer Key

Lesson 1

A business's statement of financial condition is also known as a

- A. incorrect; this is a statement of cash inflows and outflows
- B. **correct**; this is a statement of total sources and uses of funds
- C. incorrect; this is a statement of profit and loss
- D. incorrect; neither the statement of cash flows or income statement are intended to measure financial condition

Pg 1-3

2. What type of asset would trademarks, licenses, and patents be considered?

- A. incorrect; this includes cash and other assets a firm may convert to cash
- B. incorrect; these are tangible, long term assets
- C. **correct**; these are considered intangibles
- D. incorrect; these are long-term investments in debt or equity

Pg 1-7

3. The accounts receivable turnover ratio measures the

- A. **correct**; the ratio describes how quickly credit sales become cash
- B. incorrect; short term borrowing funds all assets, not just receivables
- C. incorrect; credit is measures by accounts payable, not receivables
- D. incorrect; profitability of asset classes is typically not done

Pg 1-18

4. Which class of ratios best measures a company's ability to pay its financial obligations in the short-term?

- A. incorrect; this measures the profitability of a business
- B. incorrect; this measures the amount of debt funding a business
- C. **correct**; this measures near-term assets expected to become cash for use as payment of liabilities
- D. incorrect; this measures the efficiency with which assets are used to create sales

Pg 1-23

5. Return on equity is primarily influenced by the combination of

- A. **correct**; according to the DuPont decomposition, these two influence the ROE
- B. incorrect; while related to net income and the amount of equity in a business, they omit important other factors that influence the ROE
- C. incorrect; while related to net income and the amount of equity in a business, they omit important other factors that influence the ROE
- D. incorrect; while related to net income and the amount of equity in a business, they omit important other factors that influence the ROE

pg 1-28

Lesson 2

1. What elements of corporate finance are not consolidated in a thorough financial plan?

- A. incorrect; this measures investment and funding of long-term assets
- B. incorrect; this measures how a company raises debt and equity
- C. incorrect; this measures how short-term assets are funded and managed
- D. **correct**; these measure what is done with profits rather than how they are created

Pg 2-1

2. Which is NOT a determinant of viability in a turnaround?

- A. incorrect; adequate liquidity is critical to remaining current on liabilities
- B. **correct**; turnarounds initially focus on short-term survivability, not long-term
- C. incorrect; positive cash flow allows a firm to become self-financing
- D. incorrect; ability to pay debts is crucial in a turnaround

Pg 2-5

3. The sustainable growth rate measures a company's

- A. incorrect; historic growth has not causal relation with future growth
- B. incorrect; external finance can boost growth above the sustainable rate
- C. **correct**; also equal to the ROE times the retention ratio
- D. incorrect; only an indirect influence on a specific company's growth

Pg 2-19

4. When creating a cash flow planning model, which key performance measure would professionals LEAST likely use?

- A. incorrect; this has an immediate impact on cash flow through employee expenses
- B. incorrect; impacts the near-term profitability and cash flow
- C. incorrect; these are revenue and cost commitments for the near-term
- D. **correct**; this is a long-term investment not short-term

Pg 2-9 & 2-10

5. A firm's sustainable growth rate is typically higher than its return on equity.

- A. incorrect; assumes all of the net income is retained and reinvested
- B. **correct**; ROE is higher if shareholders receive distributions

Pg 2-19

Lesson 3

1. The operating cycle is defined as the

- A. incorrect; ignores the impact of receivables
- B. incorrect; only part of the operating cycle
- C. incorrect; used to calculate the cash conversion cycle
- D. **correct**; measures the time between the start and completion of the revenue creation process

Pg 3-8

2. The cash conversion cycle is defined as the

- A. incorrect; fixed assets are not part of the cash conversion cycle
- B. **correct**; measures the amount of external funding needed for the operating cycle
- C. incorrect; measures highest liquid assets
- D. incorrect; measures book value of equity

Pg 3-8

3. If a company had 50 days of receivables outstanding, 35 days of inventory outstanding and 29 days to pay its trade creditors, then its cash conversion cycle would be how many days?

- A. incorrect; ignores the operating cycle
- B. **correct**; receivables plus inventory minus payables
- C. incorrect; ignores the impact of payables
- D. incorrect; adds payables rather than subtracts

Pg 3-9, 3-10

4. What are compensating bank balances?

- A. **correct**; monies held on deposit at a bank against loans
- B. incorrect; can't be pledged to other fund providers than the bank
- C. incorrect; these are securities, not loans
- D. incorrect; this is an asset not a liability

Pg 3-18

5. An important tool for tracking and prioritizing overdue customer accounts is a(n)

- A. **correct**; who is past due and for how long and by what amount?
- B. incorrect; external reports rather than internal
- C. incorrect; does not help identify who is late and by how much
- D. incorrect; does not necessarily indicate overdue

Pg 3-11

Lesson 4

1. The analytic tool turnaround managers use to measure the sales volume needed before a product or service is profitable is called a(n)

- A. **correct**; provides important profit and loss information
- B. incorrect; used to determine how quickly the business can grow
- C. incorrect; this determines how a firm is valued in a discounted cash flow world.
- D. incorrect; this monitors the payment status of each account and can help managers track and prioritize overdue accounts.

Pg 4-1

2. If a customer purchases 30,000 units per year and has a contribution margin of \$10 per unit, then the product generates how much towards covering fixed costs?

- A. incorrect; measures only a single unit's CM
- B. incorrect; divides rather than multiplies units by CM
- C. incorrect; math error
- D. **correct**; CM times units equals fixed costs in a breakeven analysis

Pg 4-1

3. In a turnaround situation, breakeven analysis is a better managerial tool for decision-making than net present value analysis.

- A. incorrect; breakeven is not intended to measure enterprise value creation
- B. **correct**; NPV considers all costs and benefits from decision-making

Pg 4-7

4. In turnaround situations, given the choice between two different product manufacturing alternatives, the alternative with the lowest break-even should always be selected.

- A. incorrect; ignores future cash flows
- B. **correct**; need to consider all costs and benefits today and in the future

Pg 4-6

5. When is two-way break-even analysis typically used?

- A. incorrect; if CM is incalculable, certainly can't calculate two way
- B. incorrect; no connection between mis-estimation and two-way break-even analysis
- C. **correct**; costs are difficult to measure as well as volumes at different prices
- D. incorrect; allows more careful consideration of different scenarios

Pg 4-8

Lesson 5

1. A standard cost system assigns product costs on the basis of

- A. incorrect; fails to take changing price levels into consideration
- B. **correct**; actual costs considered rather than allocated costs
- C. incorrect; this is an opportunity cost
- D. incorrect; this measures break-even

Pg 5-1

2. Properly costing products is made challenging by the fact that

- A. incorrect; this is the price at which products internally change hands
- B. incorrect; allocated costs obscure the true cost of a product
- C. incorrect; management accounting systems permit reasonably accurate costing information
- D. **correct**; businesses are more complicated and connected in reality to facilitate easy cost measurements

Pg 5-1

3. Why do standard costs improve the deficiencies associated with historical cost systems?

- A. incorrect; scale economies and seasonalities must be measured
- B. incorrect; discretion in allocating costs to finished goods (LIFO v. FIFO)
- C. incorrect; costs are properly measured going forward
- D. **correct**; standard costing has multiple advantages over historic cost systems

Pg 5-2

4. Activity-based cost systems are more accurate than traditional cost systems because they rely on business activities and processes to cost rather than unit-level cost drivers

- A. **correct**; cost generators are a key focus
- B. incorrect; units may obscure true costs of production

Pg 5-3

5. Why is accurate cost information essential in any organization?

- A. incorrect; critical for margin management
- B. incorrect; business needs to know where profits are being earned and lost
- C. incorrect; customer support should be allocated based on margins and business levels
- D. **correct**; costs dictate the portfolio of products to offer and terminate

Pg 5-1

Lesson 6

1. What is the cost of equity capital?

- A. incorrect; measures net income divided by book equity
- B. **correct**; according to the CAPM
- C. incorrect; quantifies risk but does not price it
- D. incorrect; too arbitrary and measures risk inaccurately

Pg 6-7

2. Even when default risk is absent, increasing financial leverage has what effect?

- A. incorrect; only if the current capital structure is less than optimal
- B. incorrect; depends on whether the current capital structure is optimal
- C. incorrect; only possible if higher leverage reduced the risk of the equity
- D. **correct**; higher beta increases the cost of equity

Pg 6-7

3. The primary benefit of the use of debt capital is its

- A. **correct**; IRS regulations permit tax deductibility of interest expense
- B. incorrect; these restrict managerial flexibility
- C. incorrect; this is a cost not a benefit
- D. incorrect; these increase the cost of debt and equity

Pg 6-8/6-9

4. A company's business risk is NOT impacted by

- A. incorrect; generally increases business risk
- B. incorrect; higher fixed costs increase operating cash flow variability
- C. **correct**; leverage affects financial risk, not business
- D. incorrect; cyclicity increases operating variability

Pg 6-3

5. What does a levered beta measure?

- A. incorrect; this is measured by the unlevered beta
- B. incorrect; ignores business risk
- C. **correct**; equity holders face both business and operating risk
- D. incorrect; beta is a measure of systematic risk

Pg 6-8

Lesson 7

1. The most popular form of relative valuation is the

- A. incorrect; this is an absolute measure of valuation
- B. incorrect; a discounted cash flow variant
- C. incorrect; used to value derivatives
- D. **correct**; based on comparison of values amongst similar assets

Pg 7-24

2. In performing a discounted cash flow valuation, the appropriate discount rate to use is the

- A. incorrect; assumes company has no debt
- B. **correct**; includes both the cost of credit and equity
- C. incorrect; credit always underestimates the true cost of operations
- D. incorrect; ignores the impact and availability of debt finance

Pg 7-38

3. Terminal value is considered to be

- A. incorrect; assumes the company ceases as an ongoing enterprise
- B. incorrect; ignores the value of management's continued operation of the business
- C. **correct**; long-run ongoing value once operations have stabilized
- D. incorrect; is generally large due to near-term profit pressures

Pg 121

4. In the dividend discount model, the appropriate discount rate is the

- A. incorrect; includes the cost of debt
- B. incorrect; ignores the use of debt finance
- C. **correct**; opportunity cost of capital for equity holders
- D. incorrect; underestimates the riskiness of the equity dividend stream

Pg 7-4

5. The key to using an APV approach is estimating the expected

- A. incorrect; too high because tax shields are less risky than equity flows
- B. incorrect; too high because business risk measures aggregate cash flow variability
- C. incorrect; measures equity risk, not tax shield risk
- D. **correct**; this is often ignored and only present value of tax benefits are used

Pg 7-12

Lesson 8

1. What event is likely to trigger COD income?

- A. incorrect; debt retirement/reduction in any form creates COD income
- B. incorrect; creates COD income but is not the only way debt restructurings do so
- C. incorrect; discounting a debt instrument creates a taxable event
- D. **correct**; many different ways in which debt alteration leads to a taxable event

Pg 8-1

2. The highest priority item used to reduce tax attributes in a bankruptcy exception is the

- A. incorrect; lower priority tax attribute according to bankruptcy law
- B. incorrect; lower priority tax attribute according to bankruptcy law
- C. incorrect; lower priority tax attribute according to bankruptcy law
- D. **correct**; according to bankruptcy law, highest priority tax attribute

Pg 8-1

3. Whether a debtor is in Chapter 11 has an impact on the

- A. incorrect; Chapter 7 is the liquidation chapter
- B. **correct**; value and tax treatment of NOLs varies depending on whether venue is bankruptcy court or not
- C. incorrect; depends on EBIT
- D. incorrect; depends on EBITDA

Pg 8-2

4. If a taxpayer receives abandoned property from a bankrupt estate, then the taxpayer's basis would be

- A. incorrect; ignores depreciation
- B. incorrect; would create a non-taxable transfer
- C. **correct**; maintains the existing taxable basis of the property
- D. incorrect; inequitable tax benefit for the recipient of the property

Pg 8-2

5. In bankruptcy, the debtor's pre-petition tax debts are classified as what type of claim?
- A. incorrect; preserved for highest priority claims during the resolution of the bankruptcy process
 - B. incorrect; would impinge on the priority of other claimants
 - C. incorrect; too high, according to the bankruptcy statutes
 - D. **correct**; follows the bankruptcy code

Pg 8-16

Lesson 9

1. In fresh start accounting, what happens to the equity of the bankrupt entity?
- A. incorrect; idea is to report values at market value
 - B. **correct**; bankrupt entity must be insolvent to adopt fresh start
 - C. incorrect; method of distribution does not matter in the same way as its insolvency
 - D. incorrect; equals the estimated market value of the equity based on enterprise value estimate in the plan or reorganization

Pg 9-1

2. Following the adoption of fresh start reporting, future depreciation expenses are based on
- A. incorrect; asset values are readjusted to estimated market values
 - B. incorrect; this is too arbitrary, and unrelated to their useful life
 - C. **correct**; market value estimation creates a new basis for depreciation
 - D. incorrect; depreciation allowance exists regardless of debt tax shields

Pg 9-1

3. Following the adoption of fresh start reporting, liabilities that are retained during the reorganization are reported at the
- A. incorrect; market values and amounts owed may differ
 - B. incorrect; original face value may have been compromised in the reorganization
 - C. incorrect; bankruptcy costs are expensed during the reorganization process
 - D. **correct**; this is what the sources of capital are nominally owed in the future

Pg 9-1

4. When is goodwill recognized under fresh start accounting?

- A. incorrect; prior acquisitions are unrelated to allocation of market value to assets in a bankruptcy reorganization
- B. incorrect; equity value is not directly related to the existence or absence of goodwill
- C. **correct**; enterprise value may exceed ability to allocate that value to asset accounts
- D. incorrect; depends on the ability to assign market value to specific asset accounts

Pg 9-1

5. Fresh start accounting requires that _____ assets be revalued at _____.

- A. **correct**; financial statements should accurately reflect the estimated values of a reorganized company's assets
- B. incorrect; businesses have assets other than tangible than contribute to enterprise value
- C. incorrect; typically, intangible assets have market values
- D. incorrect; historic cost is no longer an accurate indicator of financial condition

Pg 9-1

LAW BOK - Lesson 1

1. What are the three critical elements to a contract?
 - A. **Correct.** Offer creates power of acceptance, acceptance is an assent to the terms, and consideration creates a bargained-for exchange.
 - B. Incorrect. These have nothing to do with contracts.
 - C. Incorrect. These are not critical elements.
 - D. Incorrect. These are not critical elements.

Pg 24

2. At what point is a contract formed?
 - A. Incorrect. Not valid for contract formation.
 - B. Incorrect. An offer does not indicate acceptance.
 - C. **Correct.** A contract is formed when the person to whom the offer is directed accepts it.
 - D. Incorrect. Documentation does not indicate formation.

Pg 24

3. Which is an example of a contract that **MUST** be in writing?
 - A. Incorrect. It must be in writing if it cannot be fulfilled within 1 year
 - B. Incorrect. It must be in writing if it is for the sale of goods for \$500 or more
 - C. Incorrect. It must be in writing if the lease is longer than 1 year in duration.
 - D. **Correct.** This type of contract is subject to Statute of Frauds and must be in writing to be enforceable.

Pg 26

4. Under what situation can a contract be discharged?
 - A. Incorrect. This event is foreseeable.
 - B. Incorrect. This event is unlikely and foreseeable.
 - C. Incorrect. This does not make fulfillment impossible.
 - D. **Correct.** Falls under impossibility.

Pg 26

5. What is the most common remedy for breach of contract?
 - A. Incorrect. There are many remedies, this is the general term.
 - B. Incorrect. Not the most common remedy.
 - C. **Correct.** This is the most common remedy.
 - D. Incorrect. Not the most common remedy.

Pg 27

BOK LAW - Lesson 2

1. How is security interest created?

- A. **Correct.** This satisfies the requirement for proof of the parties' intent to create a security interest.
- B. Incorrect. This does not create security interest.
- C. Incorrect. This does not create security interest.
- D. Incorrect. This does not create security interest.

Pg 34

2. What is NOT needed on the financing statement?

- A. Incorrect. This IS required on the financing statement.
- B. Incorrect. This IS required on the financing statement.
- C. Incorrect. This IS required on the financing statement.
- D. **Correct.** The debtor's signature is not necessary.

Pg 34

3. A financing statement is effective for how long after it has been filed?

- A. Incorrect. This is not the correct length of time that a financing statement is effective.
- B. Incorrect. This is not the correct length of time that a financing statement is effective.
- C. **Correct.** A financing statement is effective for 5 years from the date of filing.
- D. Incorrect. This is not the correct length of time that a financing statement is effective.

Pg 35

4. What does "perfection" accomplish?

- A. Incorrect. Perfection does not support this.
- B. Incorrect. Perfection does not do this.
- C. Incorrect. Perfection does not provide for this.
- D. **Correct.** Perfection provides notice to the rest of the world of the existence of security interest.

Pg 38

5. Following repossession and sale of property after default, creditors must apply proceeds from the collection in which order?

- A. **Correct.** This is the correct order in which a creditor must apply proceeds from collection.
- B. Incorrect. The proceeds are not applied in this order.
- C. Incorrect. The proceeds are not applied in this order.
- D. Incorrect. The proceeds are not applied in this order.

Pg 42

BOK LAW: Lesson 3

1. The process of seizing and selling the debtor's property to satisfy a creditor's judgment is known as
 - A. **Correct.** Execution is a common judicial collection remedy that involves seizing and selling a debtor's property to satisfy a debt.
 - B. Incorrect. Does not involve seizing and selling the debtor's property to settle a debt.
 - C. Incorrect. Does not involve seizing and selling the debtor's property to settle a debt.
 - D. Incorrect. Does not involve seizing and selling the debtor's property to settle a debt.

Pg 47

2. What provides authorization for an officer to seize a debtor's real and personal property?
 - A. Incorrect. Unrelated to authorizing officers to seize property.
 - B. Incorrect. Unrelated to authorizing officers to seize property.
 - C. **Correct.** Allows sheriff or other authorized officer to seize a debtor's property to secure a debt or claim in the event a judgment is obtained.
 - D. Incorrect. Unrelated to authorizing officers to seize property.

Pg 47

3. The act of repossessing, or taking custody over the property of the debtor is referred to as a
 - A. Incorrect. Not related to seizing or repossessing property.
 - B. Incorrect. Not related to seizing or repossessing property.
 - C. **Correct.** A levy is the act of the sheriff or officer taking custody over the property of the defendant.
 - D. Incorrect. Not related to seizing or repossessing property.

Pg 48

4. What purpose does a receiver serve?
 - A. Incorrect. Receivers do not hold this responsibility.
 - B. **Correct.** A receiver is appointed by the court to perform these activities.
 - C. Incorrect. Receivers do not hold this responsibility.
 - D. Incorrect. Receivers do not hold this responsibility.

Pg 49

5. To obtain debtor's property that is held by a third party, the creditor must file a writ of
 - A. Incorrect. This has no bearing on obtaining debtor's property.
 - B. Incorrect. This has no bearing on obtaining debtor's property.
 - C. **Correct.** It is issued by the courts after the garnisher files an affidavit declaring a wholly or partially unsatisfied judgment.
 - D. Incorrect. This has no bearing on obtaining debtor's property.

Pg 52

BOK LAW: Lesson 4

1. Which Chapters of the Bankruptcy Code are available to corporations?

- A. Incorrect. Chapter 9 is not for corporations.
- B. Incorrect. Chapter 12 is not for corporations.
- C. **Correct.** Chapters 7 and 11 are for corporations.
- D. Incorrect. Chapters 12 and 13 are not for corporations.

Pg 4-2

2. Does a bankruptcy court ever have jurisdiction to hear a non-core matter?

- A. Incorrect. Bankruptcy courts hear non-core matters and makes recommendations but not final judgments.
- B. **Correct.** Bankruptcy courts hear non-core matters and makes recommendations but not final judgments.

Pg 4-10

3. What is one characteristic of a Creditor's Committee?

- A. Incorrect. There is more than one characteristic.
- B. Incorrect. There is more than one characteristic.
- C. Incorrect. There is more than one characteristic.
- D. **Correct.** All are characteristics of a Creditor's Committee.

Pg 4-6

4. Individual Debtors who have secured debts and desire to keep the property securing those debts should seek relief under which Chapter of the Bankruptcy Code?

- A. Incorrect. This is a liquidation process for businesses or individuals.
- B. Incorrect. This is for family farmers or fishermen
- C. **Correct.** Chapter 13 is designed for voluntary reorganization for individual debtors.
- D. Incorrect. This is for cross-border bankruptcy

Pg 4-3

5. What are the effects of conversion from one Chapter to another?

- A. Incorrect. Not an effect of conversion.
- B. **Correct.** Administrative expenses incurred are subordinate to those of the new chapter.
- C. Incorrect. Not an effect of conversion.
- D. Incorrect. Not an effect of conversion.

Pg 4-13

BOK LAW Chapter 5

1. In a Chapter 11 case, when is the sale of estate property required to be approved by the courts?
- A. Incorrect. This is untrue and does not impact sale of estate property.
 - B. Incorrect. Sale of estate property is allowed if made in the ordinary course of business.
 - C. **Correct.** Sales made outside the ordinary course of business must be approved by the court.
 - D. Incorrect. This has no impact on sale of estate property.

Pg 69

2. When does the automatic stay take effect?
- A. Incorrect. The automatic stay does not go into effect when this occurs.
 - B. **Correct.** The automatic stay is in effect immediately after filing the petition.
 - C. Incorrect. The automatic stay does not go into effect when this occurs.
 - D. Incorrect. The automatic stay does not go into effect when this occurs.

Pg 70

3. What actions are prohibited by the automatic stay?
- A. Incorrect. The automatic stay does not impact this.
 - B. **Correct.** The automatic stay restrains creditors from taking further action against the creditor.
 - C. Incorrect. The automatic stay does not impact this.
 - D. Incorrect. The automatic stay does not impact this.

Pg 70

4. Which situation could potentially terminate/provide relief of the automatic stay?
- A. Incorrect. This has no impact on the automatic stay.
 - B. Incorrect. This has no impact on the automatic stay.
 - C. Incorrect. This has no impact on the automatic stay.
 - D. **Correct.** If the case was not filed in good faith the stay could be lifted or modified.

Pg 72

5. Which would NOT be considered single asset real estate?
- A. Incorrect. This IS considered single-asset real estate.
 - B. Incorrect. This IS considered single-asset real estate.
 - C. Incorrect. This IS considered single-asset real estate.
 - D. **Correct.** This is not considered single-asset real estate as it does not involve ownership of a building that is leased to one or more tenants.

Pg 73

BOK LAW - Lesson 6

1. Who remains in control of a business in most Chapter 11 cases?
 - A. **Correct.** Pre-bankruptcy management remains in control unless a trustee is appointed.
 - B. Incorrect. This person does not remain in control of the business in a Chapter 11 case.
 - C. Incorrect. This person does not control the business in a Chapter 11 case.
 - D. Incorrect. This person does not control the business in a Chapter 11 case.

Pg 77

2. What is the role of the examiner?
 - A. Incorrect. This is not the role of the examiner.
 - B. Incorrect. This is not the role of the examiner.
 - C. **Correct.** The examiner investigates debtor's competency and honesty
 - D. Incorrect. This is not the role of the examiner.

Pg 78

3. Under what condition may cash collateral be used?
 - A. Incorrect. Cash collateral cannot be used in this circumstance.
 - B. Incorrect. Cash collateral cannot be used in this circumstance.
 - C. Incorrect. Cash collateral cannot be used in this circumstance.
 - D. **Correct.** Cash collateral may be used when the lienholder consents, or when authorized

Pg 78

4. If the trustee/DIP wants to use, sell or lease property outside the ordinary course of business, the trustee/DIP must first
 - A. Incorrect. This is not required for activities outside the ordinary course of business
 - B. Incorrect. This is not required for activities outside the ordinary course of business
 - C. Incorrect. This is not required for activities outside the ordinary course of business
 - D. **Correct.** If done outside the ordinary course of business than the trustee/DIP must provide notice to creditors and attend a hearing.

Pg 80

5. A trustee/DIP wishing to sell or lease property in the ordinary course of business is required to
 - A. Incorrect. This is not required for activities in the ordinary course of business
 - B. Incorrect. This is not required for activities in the ordinary course of business
 - C. Incorrect. This is not required for activities in the ordinary course of business
 - D. **Correct.** The trustee/DIP is not required to do anything as long as it's done under the ordinary course of business.

Pg 80

BOK LAW - Lesson 7

1. Assisting bankruptcy courts with cases, preventing fraud and dishonesty, and establishing, maintaining and supervising a panel of eligible trustees is whose responsibility?
 - A. Incorrect. This is not the Attorney General's role
 - B. Incorrect. This is not the bankruptcy judge's role
 - C. **Correct.** This is the role of the UST
 - D. Incorrect. This is not the role of the Committee of Creditors

Pg 87

2. Under what circumstances would a trustee be appointed in a Chapter 11 case?
 - A. Incorrect. This is not the only reason a trustee would be appointed.
 - B. Incorrect. This is not the only reason a trustee would be appointed.
 - C. Incorrect. This is not the only reason a trustee would be appointed.
 - D. **Correct.** A trustee would be appointed in situations of fraud, dishonesty and gross mismanagement.

Pg 88

3. What is the primary role of the examiner in a Chapter 11 bankruptcy?
 - A. Incorrect. This is not the role of the examiner.
 - B. Incorrect. This is not the role of the examiner.
 - C. Incorrect. This is not the role of the examiner.
 - D. **Correct.** The examiner's role is to investigate the debtor's business operations and prospects for rehabilitation, as well as pre- and post-petition conduct.

Pg 89

4. Professionals seeking compensation from the DIP of bankruptcy estate must file required disclosures and proposed orders for appointment at what point in the process?
 - A. **Correct.** Disclosures should be filed as soon as possible.
 - B. Incorrect. This is not the most appropriate time to file.
 - C. Incorrect. This is not the most appropriate time to file.
 - D. Incorrect. This is not the most appropriate time to file.

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BOK: Management Lesson Answers

Answer Key

Lesson 1

1. The most common cause of business failure is a result of

- A. incorrect; occurs in 24% of business failures
- B. incorrect; occurs in 10% of business failures
- C. **correct**; occurs in 29% of business failures
- D. incorrect; occurs in 6% of business failures

Pg 1-1

2. External causes of business decline and failure include changes in what conditions?

- A. incorrect; broadly speaking, there are multiple external changes that turnaround managers need awareness of
- B. incorrect; competition is not the only cause of decline and failure
- C. incorrect; a cause, but not a sole cause of decline and failure
- D. **correct**; three of the four main types of external change that turnaround managers need to be aware of

Pg 1-1, 1-2

3. Business failure can be attributed to what leadership quality?

- A. incorrect; input should be valued
- B. incorrect; effective leaders anticipate change and address the need to change
- C. incorrect; leaders should encourage open dialogue
- D. **correct**; old wisdom can hinder progressive thinking

Pg 1-6, 1-7

4. Business decline and failure are most often caused by factors that are external to the firm.

- A. incorrect; only 0-35% of failures are attributable to external factors
- B. **correct**; 65-100% of failures are attributable to internal factors

Pg 1-4

5. What indicates that a business's finances are poorly functioning?

- A. incorrect; tight controls help working capital
- B. incorrect; decreases revenue loss from asset impairment
- C. **correct**; firm may not be able to raise funds or may be using costliest methods
- D. incorrect; firm is managing inputs and outputs

Pg 1-11

Lesson 2

1. Which is NOT considered a factor in the original Altman Z-score?

- A. incorrect; measures liquidity
- B. incorrect; measures operating profit margin
- C. **correct**; should be Retained Earnings/Total Assets
- D. incorrect; measures asset efficiency

Pg 2-7

2. Identify an early warning sign of decline and failure.

- A. incorrect; can clearly suggest decline and failure lie ahead
- B. incorrect; problems may be industry-related as well as company-specific
- C. incorrect; poor decision making is a critical source of problems
- D. **correct**; a good turnaround manager must be able to assess a myriad of warning indicators

Pg 2-3

3. The sustainable growth rate indicates whether

- A. **correct**; equal to the ROE times the retention ratio
- B. incorrect; measures the rate of growth rather than the profitability
- C. incorrect; not a measure of leverage
- D. incorrect; measures historical performance, not new initiatives

Pg 2-8

4. High dividend payments decrease the sustainable growth rate.

- A. **correct**; higher shareholder payments today reduce future growth
- B. incorrect; reduces the amount of reinvestment in the business

Pg 2-8

5. Recent survey evidence indicates the strongest adverse trend for a business is

- A. incorrect; ignores impact of operating costs on business trends
- B. **correct**; includes revenues and operating costs as a measure of financial health
- C. incorrect; includes the impact of financial decisions and taxes
- D. incorrect; measures investment rather than operating performance

Pg 2-1

Lesson 3

1. Which is NOT considered an element of a successful turnaround?

- A. **correct**; selling the business may not optimize value in a turnaround
- B. incorrect; need capital to fund negative free cash flow
- C. incorrect; it's where competitive advantage comes from
- D. incorrect; many difficulties in managing during a period of distress

Pg 3-1

2. According to a 1996 survey by Turnaround Management Association (TMA), what percent of distressed companies eventually recover?

- A. incorrect; too pessimistic, as some businesses are salvageable
- B. incorrect; too low, according to the survey
- C. **correct**; about one fifth of distressed companies return to normal
- D. incorrect; too high, as many firms are beyond repair

Pg 3-1

3. What is a key requirement to enable a turnaround of a business?

- A. incorrect; need a broad customer base to be successful
- B. incorrect; removes the risk of funding interruptions from the management of the business
- C. incorrect; location, location, location
- D. **correct**; four of five key requirements for a business to be worth turning around

Pg 3-2

4. Factoring is the process by which a third party acquires the accounts receivable of a firm and assume the responsibility and risks of collection.

- A. **correct**; a method used to accelerate collections from outstanding receivables
- B. incorrect; it's a financing technique rather than a marketing methodology

Pg 3-3

5. Most often, the first step in a successful turnaround is to

- A. incorrect; needs to be evaluated and stabilized before a sale can be considered
- B. incorrect; increases expenditures without a thoughtful path to profitability
- C. incorrect; needs tangible change rather than cosmetic
- D. **correct**; visible and critical commitment to a turnaround

Pg 3-8

Lesson 4

1. Exceptional managerial leadership requires which skill set?

- A. incorrect; good negotiation helps but is not a complete answer
- B. incorrect; must be able to manage in order to lead
- C. incorrect; ability to act like a new business may bring forth new ideas
- D. **correct**; leadership requires multiple capabilities from turnaround professionals

Pg 4-4

2. What would NOT be considered a critical requirement of an effective turnaround manager?

- A. incorrect; must be a strategic thinker to succeed
- B. **correct**; the finance function will be key in leading this effort
- C. incorrect; need to transfer strategic ideas to strategic actions for success
- D. incorrect; the organization needs a champion to follow through the period of distress

Pg 4-1

3. Process innovation strategy is typically more successful in a turnaround than a market focus strategy.

- A. incorrect; not always universally a dominant strategy
- B. **correct**; they are each successful at different stages of decline

Pg 4-2

4. Which strategy would be most effective in early decline?

- A. **correct**; greater operating flexibility during early stage of decline
- B. incorrect; this is not a strategy
- C. incorrect; incremental rather than wholesale changes work best here
- D. incorrect; works better when there is a need to revolutionize to survive

Pg 4-1

5. What strategy is more effective in advanced decline?

- A. incorrect; not substantial enough at this stage to be effective
- B. incorrect; customer base has eroded too substantially to expect this to be effective
- C. **correct**; re-thinking entire service strategy as a value-added provider may key success here
- D. incorrect; this is not a strategy

Pg 4-1

Lesson 5

1. The goal of the initial stage of the turnaround process is

- A. incorrect; the second step in the turnaround process
- B. incorrect; the fourth step in the turnaround process
- C. incorrect; the third step in the turnaround process
- D. **correct**; the first step in the turnaround process

Pg 5-1

2. The time between the management change stage and the return to normal stage varies, but generally takes

- A. incorrect; not enough time to systematically work through the stage process
- B. incorrect; distress takes longer than this to address and correct
- C. **correct**; meaningful change takes time and effort and resources
- D. incorrect; would likely fail while enduring this long a process

Pg 5-2

3. The objective of the emergency action stage is to

- A. incorrect; generally occurs during management change
- B. **correct**; without adequate cash there is nothing to pay bills with
- C. incorrect; if cuts are made they should be announced and all occur at once
- D. incorrect; situation has not yet been fully analyzed, and that may be the worst step to take as a result

Pg 5-3

4. Efforts in the stabilization stage should focus on

- A. **correct**; sound platform creates opportunity to make profitable changes to operations
- B. incorrect; should be addressed in the evaluation stage
- C. incorrect; likely has occurred prior to this stage
- D. incorrect; too early to initiate new investments of unknown profitability

Pg 5-3

5. During which stage are the three requirements for survivability evaluated?

- A. incorrect; focus here is more on cash conservation
- B. incorrect; can only be addressed if survivability has been assured
- C. **correct**; need to understand whether the fundamental elements of a sound business exist before proceeding further
- D. incorrect; new management must be brought aboard before survival can be assessed

Pg 5-2

Lesson 6

1. The primary reason to change management during a turnaround is to

- A. **correct**; intuitively, the management change phase ought to put into place a team of managers committed to success in a strained situation
- B. incorrect; while Boards do turnover often during distress, it's the operating decision managers that can most influence success or failure
- C. incorrect; while some headcount reduction may be warranted, it's premature to do so before the right management team is installed
- D. incorrect; not a good way to get them to support the turnaround effort

Pg 6-1

2. Early action in the selection of a turnaround professional is important because

- A. **correct**; time is, in many ways, a deterrent to change when there is still enough of a business to salvage
- B. incorrect; bridge financing does not generally occur until the evaluation stage
- C. incorrect; employees may or may not learn new skills in turnaround
- D. incorrect; until an adequate assessment of the core business occurs in the evaluation stage, difficult to know whether it will grow or not

Pg 6-2

3. What is the general opinion on replacing the incumbent CEO in a turnaround?

- A. incorrect; first, it must be determined what role the CEO had in creating the company's current situation
- B. incorrect; Board functions and CEO functions within an organization differ, especially in a turnaround
- C. incorrect; whether the business was founded or not by the incumbent CEO should have no impact on whether the CEO is performing adequately or poorly
- D. **correct**; each situation is unique, so there is no universal golden rule in this case

Pg 6-4

4. If replacing the CEO, who is the best option?

- A. incorrect; depends on whether an insider with turnaround credentials can be identified
- B. incorrect; outsider may lack the insider perspective and connections needed to effectuate a turnaround
- C. incorrect; industry experience likely helps, but it is not a guarantee of success
- D. **correct**; individual company circumstance is a critical determinant here

Pg 6-4

5. During a distress situation, should board members be replaced?

- A. incorrect; they may often be a contributing source of problems within the company
- B. incorrect; replacement is a function of who can help restructure the business for success
- C. **correct**; any organization member that is an impediment to change needs replacement
- D. incorrect; they can serve as an available source of information and networking

Pg 6-6

Lesson 7

1. During the evaluation stage, turnaround professionals must NOT focus their efforts on determining the

- A. incorrect; knowing which businesses to keep and which to shed is crucial to re-establishing profitability
- B. incorrect; this creates the template for implementing change in the company
- C. **correct**; adequate financing occurs subsequent to deciding how the operations are going to be improved
- D. incorrect; if not, then there is no reason to continue further in the subsequent turnaround stages

Pg 7-1

2. Which analytical technique can be used to assess financial conditions in the evaluation stage?

- A. incorrect; leaves unanswered questions regarding going concern value and profitability
- B. incorrect; helps assess customer and product break-evens but is silent regarding paths to improve profitability
- C. incorrect; does not provide profit and loss or cash flow information
- D. **correct**; financial condition evaluation of distressed entities requires careful evaluation of several different indicators of financial health

Pg 7-5, 7-5

3. What is the goal of break-even analysis?

- A. incorrect; break-even does not address cash adequacy or attempt to measure it
- B. **correct**; tells a turnaround manager how close (or far) a firm is from at least breaking even on near-term unit sales
- C. incorrect; break-even is useful in assessing early stages of a turnaround, but provides no information regarding the length of time to return to normal
- D. incorrect; it utilizes cost and revenue information rather than ratios

Pg 7-5

4. Assessing personnel strengths and weaknesses should happen very early during the turnaround process

- A. **correct**; difficult to implement actionable steps if the business lacks adequate personnel
- B. incorrect; waiting to assess strengths and weaknesses of the management and employee pool of talent can severely slow down the process of implementing the turnaround

Pg 7-2

5. Critical customer assessment and evaluation include what type of analysis?

- A. **correct**; an indication of accuracy of order fulfillment
- B. incorrect; describes external environment
- C. incorrect; this is a financial responsibility
- D. incorrect; does not provide information on customer base

Pg 7-11

Lesson 8

1. Which is an element of an effective strategy in a turnaround situation?

- A. **correct**; inspire higher level of performance
- B. incorrect; risk of resistance to change
- C. incorrect; detailed plans are needed as a road map
- D. incorrect; this eliminates historical information and should only occur when there is resistance

Pg 8-4 -- 8-7

2. During the process of preparing detailed functional action plans, lead responsibility for conceiving strategies is delegated to the

- A. incorrect; do not have requisite knowledge or experience
- B. incorrect; has other responsibilities to execute
- C. **correct**; these officers are closest to the actual decision making apparatus in their respective businesses, so creating authority and responsibility at this level is critical
- D. incorrect; detailed operational tactics is well beyond the scope of their role in an organization

Pg 8-6

3. A common mistake in strategic planning is to

- A. incorrect; need to create buy-in from all affected constituencies
- B. incorrect; the vision must come first or there are no meaningful tactics to create
- C. **correct**; operational effectiveness is a consequence of sound strategic planning
- D. incorrect; turnarounds are dynamic so an effective plan should periodically be re-visited

Pg 8-1

4. What is a strategy?

- A. **correct**; the only way to create value is to develop and maintain a competitive advantage
- B. incorrect; quality may be a part of some effective strategies but not others, such as a low cost producer
- C. incorrect; planning is a component but that is the consequence or recognizing how to exploit competitive advantage
- D. incorrect; does not consider this component

Pg 8-1

5. The first step in the development of an effective strategy is to develop a

A. incorrect; can only follow agreement on the direction the company intends to pursue future business opportunities

B. **correct**; describes the areas to focus on and what areas to eliminate

C. incorrect; should be considered long term

D. incorrect; should be done later once the decision regarding business mix has been determined

Pg 8-2

Lesson 9

1. Which is an external source of cash?

A. incorrect; reduction of assets increases cash

B. incorrect; increases in liabilities increases cash

C. incorrect; asset reductions increase cash

D. **correct**; this is an external financing source of cash

Pg 9-2

2. Vendor precedence and priority should be considered when determining the importance of which vendors to pay first in a distress situation.

A. **correct**; critical vendors require different treatment to ensure continued flow of goods

B. incorrect; vendors that are not going to be critical to a successful turnaround can be deferred

Pg 9-2

3. Customers, products and product lines that are not profitable should be

A. incorrect; they likely represent a drain on valuable cash resources

B. **correct**; profitability and cash flow can improve from such actions

C. incorrect; higher prices are likely to create future collection and distribution problems

D. incorrect; likely leads to a greater amount of uncollectables

Pg 9-6

4. Actions for effectively turning around the culture of an organization include

A. incorrect; dire situations require urgent actions in the business

B. incorrect; progress can be a powerful motivator

C. incorrect; it's a team effort of dedicated employees

D. **correct**; turnaround managers must be attentive to multiple means of creating change in a distressed business

Pg 9-10

5. Control of a distressed company's purchasing decisions should be vested in the
- A. incorrect; attends to external financial and cash flow challenges
 - B. incorrect; concentrates on improved financial reporting and dissemination of performance information
 - C. incorrect; cash needs to be controlled carefully by an experienced distress professional
 - D. **correct**; in the best position to monitor cash expenditures by the company

Pg 9-4

Lesson 10

1. The first objective in the business restructuring stage is to
- A. **correct**; profit enhancement is critical to establishing short-term and longer-term business viability
 - B. incorrect; premature to fund growth without extracting maximum profits from products already in existence
 - C. incorrect; not necessary for restructuring under certain conditions
 - D. incorrect; unclear that court supervised workouts is always the best course of action

Pg 10-1

2. The fastest and most effective means to get employees to support a turnaround plan is to
- A. incorrect; will not initiate the recognition of a need for change
 - B. incorrect; creates unnecessary expenditures
 - C. **correct**; reward employees for superior performance
 - D. incorrect; will help in efforts but not in helping employees embrace change

Pg 10-9

3. Common techniques to improve liquidity include
- A. incorrect; growth diverts resources from improving profitability
 - B. **correct**; improves the cash conversion cycle
 - C. incorrect; leases should be used in lieu of capital assets
 - D. incorrect; consolidating bank services helps improve liquidity

Pg 10-2

4. What do the letters in EVA represent?

- A. **correct**; created by Stern Stewart to measure and manage performance
- B. incorrect; no such term in the glossary of turnaround management
- C. incorrect; balance sheet leverage measure
- D. incorrect; unclear what the term even means in a turnaround context

Pg 10-8

5. The first step in improving the people mix of the business is to

- A. incorrect; may be plenty of undetected or underutilized internal personnel talent
- B. **correct**; strong managers attract and motivate talented personnel
- C. incorrect; creates of poor sense of belonging and ownership
- D. incorrect; should only be done later in the turnaround process

Pg 10-9

Lesson 11

1. Practicing the skills of turnaround management everyday involves

- A. incorrect; avoid the accumulation of years of problematic build-up
- B. incorrect; don't get overly committed to a single course of action
- C. incorrect; delaying and deferring makes matters worse
- D. **correct**; everyday management seeks to help business problems to avoid before they become epidemic

Pg 11-11

2. Most companies are able to grow their way out of financial distress.

- A. incorrect; uncontrolled growth can actually accelerate distress
- B. **correct**; need to distinguish between profitable growth and unprofitable growth

Pg 11-1

3. During the return to normal stage, the most important functional set of activities is

- A. incorrect; the finances should be stabilized already by this point
- B. incorrect; too early to begin wholesale investment in new ideas
- C. **correct**; create a better understanding of products, prices and customers
- D. incorrect; attracting and appointing competent personnel should be managed by this point

Pg 11-3

4. In order to successfully pursue a differentiation strategy, a firm must
- A. incorrect; marketing alone is not generally a significant differentiator
 - B. incorrect; that is a consequence of a successful differentiation strategy
 - C. **correct**; must continuously develop new products to satisfy customers better than competitor products
 - D. incorrect; competitors that innovate may reduce or eliminate loyalty

Pg 11-2

5. What is the general census on strategic alliances with other organizations?
- A. incorrect; while failure rates are high, success stories do exist
 - B. **correct**; more complicated than sole ownership of an idea but can draw upon different capabilities for success
 - C. incorrect; may be better and more cost efficient to ally;
 - D. incorrect; alliances allow maintenance of separate culture and require very little integration

Pg 11-6

Lesson 12

1. The primary purpose of WARN is to
- A. **correct**; closures or layoffs must be disclosed in advance to allow appropriate adjustment times for stakeholders
 - B. incorrect; no such law exists
 - C. incorrect; no such law exists
 - D. incorrect; relates to plants and employees rather than suppliers

Pg 12-1

2. The purpose of COBRA is to
- A. incorrect; does not address this aspect of health care coverage
 - B. **correct**; facilitates health care coverage during the job search process
 - C. incorrect; the Act does not address this
 - D. incorrect; the Act does not address this

Pg 12-3

3. What is the purpose of CERCLA?

- A. incorrect; does not address employment opportunities
- B. incorrect; does not address age or discrimination
- C. **correct**; details information regarding the chain of liability during costly environmental problems
- D. incorrect; does not address the issue of settlement directly

Pg 12-4

4. Sarbanes-Oxley imposes new duties and responsibilities for

- A. incorrect; details the standards by which independence must be retained in corporate financial statement evaluation by outside third parties
- B. incorrect; requires fair and equal access to financial information
- C. incorrect; need to disclose conflicts of interest that may influence ratings
- D. **correct**; affects virtually all aspects of financial disclosure and evaluation

Pg 12-8, 12-9

5. The Hart-Scott-Rodino requires

- A. **correct**; government oversight to make sure customers are not harmed by business combinations
- B. incorrect; says nothing about price discrimination or the competitiveness of markets
- C. incorrect; does not provide for any restrictions on Board membership
- D. incorrect; filing fees are governed by transaction thresholds

Pg 12-22

Lesson 13

1. According to TMA's Code of Ethics, obligations by the turnaround professional to the client include

- A. incorrect; must be able to reasonably perform on the representation to affect a turnaround
- B. incorrect; must not have conflicts of interest in an assignment
- C. incorrect; must assist the client in understanding the situation and options or alternatives to pursue
- D. **correct**; a turnaround professional has a number of important client responsibilities to consider when accepting a turnaround engagement

Pg 13-2

2. According to TMA's Code of Ethics, a member may accept a performance bonus or other contingency fee.

- A. **correct**; must make sure it is structured to reward performance
- B. incorrect; when appropriately designed, may be a powerful performance motivator

Pg 13-13

3. According to TMA's Code of Ethics, the general obligations and professional boundaries of a member include

- A. incorrect; must be adept at managing complexity and implementing difficult decisions
- B. incorrect; stakeholders other than financial claimants have a vested interest in a business as well
- C. incorrect; must maintain current, topical knowledge on the turnaround profession
- D. **correct**; TMA takes very seriously the responsibilities of membership in its organization

Pg 13-2

4. According to TMA's Code of Ethics, a member's duty is solely to whom?

- A. incorrect; the bankruptcy court is a forum for resolution but has no other vested interest in the turnaround
- B. incorrect; creditors are entitled to engage their own professionals if they so desire
- C. **correct**; the client has engaged the TMA member to serve his or her best interest in a distress situation
- D. incorrect; the TMA member's loyalty and responsibility are clear and unambiguous

Pg 13-2

5. TMA's Code of Ethics precludes equity ownership of a troubled company client.

- A. incorrect; however, the equity ownership must be carefully implemented to avoid conflicts of interest
- B. **correct**; the TMA professional must strive to avoid enriching themselves at the expense of other stakeholders in the company

Pg 13-2