

SPECIALTY MARKETS -- FINAL EXAM

1. The liquidation of a business involves the sale of its assets. A _____ is typically a more efficient process.
 - A. Newspaper ad
 - B. Broker
 - C. Public auction
 - D. Internet announcement
2. The duties of partners is clear. They are fiduciaries to each other. This means they owe loyalty and cannot engage in any activity that _____ the partnership's business or interest.
 - A. Conflicts
 - B. Binds
 - C. Supersedes
 - D. Contracts
3. A family partnership is a legal agreement that allows business owners and their children to address _____.
 - A. Taxes
 - B. Business succession
 - C. Estate planning
 - D. All of the above at once
4. A limited liability corporation is a business structure that _____ the corporation, the partnership or sole proprietorship.
 - A. Is superior to
 - B. Fits somewhere between
 - C. Is similar to
 - D. Is inferior to
5. A redemption buy-sell agreement binds the _____ to purchase the stock to the extent of its available surplus.
 - A. Partners
 - B. Corporation
 - C. Individual business owner
 - D. Stockholder
6. After the "termination of a key employee", which of the following can a company do with his key employee insurance it paid for?
 - A. Surrender the policy for cash value
 - B. Purchase paid-up term insurance for a stated period using the cash accumulated
 - C. Allow the former employee to purchase the policy
 - D. All of the above are options
7. In qualifying for disability income insurance, the insured must _____.
 - A. Have assets in excess of \$500,000
 - B. Be able to prove income and pass a medical exam
 - C. Have a managerial level position
 - D. Direct proceeds back to the company
8. The split dollar concept refers to the division of insurance proceeds between the company and _____.
 - A. The executive's beneficiaries
 - B. Upper level managers
 - C. The company attorney
 - D. The IRS
9. Disadvantages of a stock option plan include which of the following:
 - A. Little incentive or value in a declining stock market
 - B. Little correlation between earnings and value in a fluctuating market
 - C. Options must be held for years for favorable tax treatment
 - D. All of the above
10. Return on stockholders' equity is a method of measuring _____.
 - A. A shareholder's net worth
 - B. Tax exposure
 - C. ROI or return on investment
 - D. Executive compensation
11. Trusts are an attractive alternative to _____ in some business owner cases.
 - A. Settlements
 - B. High taxes
 - C. Liquidation
 - D. Rollovers
12. To be most effective when "penetrating a specialty market group" it is important for an agent to _____.
 - A. Speak fluently
 - B. Position himself in the company of individuals within the group
 - C. Have a college degree
 - D. Maintain an executive office
13. Which of the following are disadvantages of a partnership:
 - A. Unlimited liability of at least one partner
 - B. Unstable life
 - C. Difficult financing
 - D. All of the above
14. Concerning partnership tax considerations, partnerships are not liable for federal or state income taxes. Profits and losses _____.
 - A. Are completely exempt
 - B. Are deferred
 - C. Flow through to individual partners
 - D. Are liened

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15. There are "exceptions to the limited liability" of LLCs. A limited liability corporation owner is liable, for instance, if he:
- Personally and directly injures someone
 - Personally guarantees a bank loan
 - Intentionally does something fraudulent or illegal
 - All of the above
16. A cross purchase buy-sell agreement binds the stockholders in a corporation to _____.
- A limit of 1,000 share
 - Buy outside stock
 - Purchase each other's shares
 - A 25% discount on share purchases
17. Identifying the key person in a company in order to buy key employee insurance involves which of the following criteria:
- Size of salary may indicate importance
 - Role in company, area of specialty, etc
 - Existence as a root or source of capital for company
 - All of the above
18. Defining disability in a disability income policy is generally defined as the inability to engage in gainful activity by reasons of a medically determined physical or mental impairment expected to last _____ or result in death.
- 3 months
 - 6 months
 - 12 months
 - 2 years
19. Which of the following are actual tests used to decide pension plan discrimination:
- The percentage test
 - The facts and circumstances test
 - The pension test
 - Both A&B
20. Tax consequences of the split dollar concept make the _____ subject to tax on part of the premium cost of the split dollar coverage.
- Executive
 - Company
 - Agent
 - Beneficiary
21. Concerning "qualified stock options", the Revenue Act of 1964 provides that the option price must be _____.
- At least the fair market value of the stock
 - Below the fair market value
 - At or below book value
 - Exceed book value by \$100
22. The alternative economic benefit theory states that if stockholders could invest their money in bonds or CDs at say 5%, the company should be able to offer _____.
- 5% more
 - 7% more
 - at least that return on their money
 - a little less
23. Section 303 of the Internal Revenue Code was specifically enacted for making available most of the cash needed with _____ dies.
- CEO
 - Senior manager
 - Close corporation stockholder
 - Spouse
24. In determining the legal structure best suited a business, which of the following is a major factor:
- Relationship between parties
 - Changing federal and state income tax laws
 - Fluctuating availability of capital
 - All of the above
25. The term "silent partner" can mean a real partner who _____.
- Has no voice and takes no part in partnership business
 - Is not revealed to the public
 - Contributes only cash and does not work
 - All of the above
26. Concerning "disputes", all partnership agreements should have _____.
- Arbitrators on staff
 - A sympathetic judge on call
 - A provision to handle unresolved disputes
 - A monthly grudge match in the parking lot
27. The articles of incorporation state the _____ of a particular enterprise.
- Address
 - Powers and limitations
 - Stock value
 - Constitutionality
28. The "hybrid buy-sell agreement" combines the elements of _____.
- A redemption agreement
 - A cross purchase agreement
 - An agency agreement
 - A&B only
29. Premiums paid for a company for a key employee insurance policy are _____ as a business expense.
- Deductible
 - Not deductible
 - Partially
 - Never considered

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30. Determining the amount of disability income needed involves which of the following steps:
- Determine need
 - Determine potential income
 - Measure the necessary amount of disability insurance income
 - All of the above
31. Residual disability benefits are based on _____.
- Current age
 - Lost income
 - Health of the insured
 - Assets of the insured
32. The rationale behind providing stock options as executive compensation was that _____.
- The rich get richer
 - Companies should link executive pay to the things that mattered to company stockholders
 - Executives are basically greedy
 - Stock prices have nothing to do with how an executive performs
33. Interest-free loans from a company to a controlling executive are treated as _____ by the IRS.
- Taxable interest income to the corporate lender
 - An offsetting deduction to the borrower
 - An illegal activity
 - A&B only
34. Distributions from a pension plan can only be withdrawn at retirement with the exception of _____.
- Death or disability
 - Termination of employment
 - Termination of the plan itself
 - Any or all of the above
35. Deferred compensation refers to compensation earned in one year, but _____.
- Paid in another
 - Never recovered
 - Not recognized by IRS
 - Discounted in later years
36. The advantage of stock options plans is that they afford corporations the opportunity to compensate executives and other employees in a completely _____ manner.
- Discriminatory
 - Luxurious
 - Unbiased
 - Tax-free
37. The executive bonus concept is a special compensation program which is used to _____.
- Avoid corporate taxes
 - Attract, retain and motivate exceptional people
 - Irritate the poor
 - Appease congress
38. Some companies pay "awards" on a group basis. These are referred to as _____ because groups of executives receive portions of greater company profits.
- Greedy "hold-outs"
 - Under the table activities
 - Gain sharing plans
 - Trophy plans
39. Concerning settlements in business estate planning, the disadvantage of an optional settlement is that _____.
- The plan is sound only as long as the insurer remains solvent
 - The plan can fall victim to inflation
 - Insured's always prefer lump sums
 - A&B only
40. In the decision to continue or sell the business of a deceased owner, a personal representative must determine the _____.
- Time of death
 - Purpose of the business
 - Amount of available operating funds
 - Status of the competition
41. Concerning liability for partnership debts, a crucial principle is that each partner _____.
- Is somewhat liable
 - Could be legally responsible
 - Is Personally liable
 - Is responsible for his share of liability
42. A "right of first refusal" provision in a partnership agreement allows _____.
- Remaining partners to purchase the interest of a deceased partner
 - A disgruntled partner to buy-out others
 - Managers of the partnership the right to refuse certain customers
 - Any partner the right to inspect books
43. Advantages of a corporation include which of the following:
- Limited liability / Transferable ownership
 - Separate legal existence / Stability
 - Ease of securing capital / Central management
 - All of the above

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44. Upon the death of a corporate owner or major stockholder, his shares in the corporation _____.
- A. May be passed to his heirs
 - B. Cannot transfer to heirs
 - C. Are divided among remaining shareholders
 - D. Are dissolved
45. Owners of most small LLCs participate equally in management. This arrangement is called _____.
- A. Equal management
 - B. Shared management
 - C. Member management
 - D. Unfair to rank and file employees
46. When life insurance is purchased on the life of a key person in a company, an insurable interest _____.
- A. Must exist
 - B. Is not necessary
 - C. Is automatically created
 - D. May not be present
47. Death proceeds of a key person life insurance policy are _____.
- A. Tax-deferred
 - B. Tax-free
 - C. Somewhat taxable
 - D. Tax-rated
48. Premiums for group insurance policies are determined by _____.
- A. The group board
 - B. Experience ratings
 - C. The drawing of straws
 - D. Current law
49. The intent of deferred compensation is to _____.
- A. Hold executives as hostage employees
 - B. Cut down an executive's actual pay during the deferral period
 - C. Pay less in the long run
 - D. Undermine company loyalty
50. Profit plan distributions to employees may be taken as company stock. Normally, the tax is based on _____.
- A. The age of the employee
 - B. Fair market value in the year received
 - C. 50% of profits
 - D. 25% of capital gain

167 **Specialty Markets Exam** **20 Hours** **Instructions**

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