



**California  
Subject  
Examinations for  
Teachers®**

**TEST GUIDE**

**BUSINESS  
SUBTEST II**

**Sample Questions and Responses  
and Scoring Information**

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CS-TG-QR176X-01

## Sample Test Questions for CSET: Business Subtest II

Below is a set of multiple-choice questions and constructed-response questions that are similar to the questions you will see on Subtest II of CSET: Business. You are encouraged to respond to the questions without looking at the responses provided in the next section. Record your responses on a sheet of paper and compare them with the provided responses.

1. Use the document below to answer the question that follows.

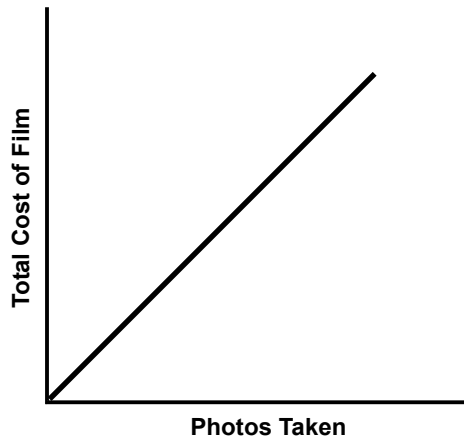
<b>G &amp; S Office Supplies</b> 123 Main Street Anytown, CA 99999		<b>Invoice No.</b> 1234
<b>TO:</b> Smith's Accounting Service 400 Main Street Anytown, CA 00000		<b>Date:</b> January 1, 20—
		<b>Terms:</b> \$1,200 installments payable monthly
<b>Quantity:</b> 6	<b>Item(s):</b> Copiers	<b>Price:</b> \$600
		<b>Total:</b> \$3,600

When Smith's Accounting Service receives this invoice, Smith's accountant should make which of the following entries in the general journal?

- A. Debit \$3,600 to Accounts Payable; credit \$3,600 to Office Equipment.
- B. Debit \$3,600 to Office Equipment; credit \$3,600 to Accounts Payable.
- C. Debit \$600 to Office Equipment; credit \$600 to Accounts Payable.
- D. Debit \$600 to Accounts Payable; credit \$600 to Office Equipment.

2. Marcie Devin is the new chief financial officer (CFO) of a large, publicly traded insurance company. In reviewing the quarterly financial reports, she concludes that a significant amount of the company's accounts receivable are likely uncollectible and have been carried for too long. Which of the following recommendations to the board of directors would be most appropriate for her to make in order to remedy this situation?
  - A. Hire additional staff to handle credit collection and spend more time reviewing credit policies with customers.
  - B. Write off the uncollectible debt even though it will result in lower net profits for the quarter.
  - C. Sell the outstanding debt to a collection agency and outsource all aspects of the company's accounts receivables.
  - D. Change the method of recording uncollectible accounts to the book value method in order to reduce the amount shown on financial reports.
3. Which of the following describes how computerized accounting systems can best be used to help simplify the payroll process for a business?
  - A. Changes in salary and commission rates can be linked to specific performance goals.
  - B. Banks can access the company's accounting system and then transfer funds to cover payroll.
  - C. Selection of the payroll taxing authority that will be paid can be determined by the software.
  - D. As individual payroll checks are issued, the company's tax liabilities can be automatically journalized.
4. The current ratio and quick ratio are the best indicators of a company's:
  - A. liquidity.
  - B. efficiency.
  - C. profitability.
  - D. growth rate.

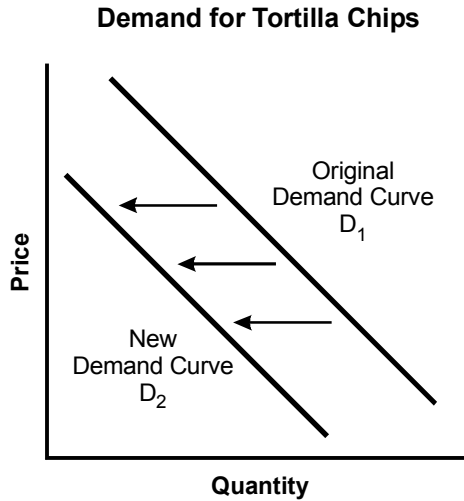
5. Use the graph below to answer the question that follows.



Which of the following classifications of costs is displayed in the activity-based graph above?

- A. fixed
- B. variable
- C. mixed
- D. differential
6. Tina and Malcolm plan to purchase their first life insurance policies. They are in their late twenties and have just had their first child. Both Tina and Malcolm work full time and contribute to employee tax-deferred savings plans with matching employer contributions. Which of the following types of insurance would most likely fit their needs?
- A. term insurance
- B. whole-life insurance
- C. installment insurance
- D. universal-life insurance
7. Which of the following is generally the most significant advantage of leasing rather than borrowing money to buy an automobile?
- A. fewer maintenance and repair expenses
- B. greater flexibility in payment terms
- C. more rapid buildup of equity in the vehicle
- D. lower monthly payments
8. Which of the following is the most important advantage of participating in an employer-administered 401(k) savings plan?
- A. the ability to create a diversified portfolio
- B. the low risk level of the initial investment
- C. the tax deferral on contributions and earnings
- D. the ready liquidity if funds are needed
9. Opportunity costs are best described as the costs of:
- A. operating a business.
- B. choosing one alternative over others.
- C. developing new products.
- D. entering a new market with an existing product.

10. Use the diagram below to answer the question that follows.



A change in the demand curve for tortilla chips from  $D_1$  to  $D_2$  is most likely caused by which of the following?

- A. an expectation of a future increase in the relative price of tortilla chips
- B. an increase in the income level of consumers buying tortilla chips
- C. a decrease in the price of other types of snack chips and crackers
- D. a decrease in the price of salsa and dips consumed with tortilla chips

11. Use the table below to answer the question that follows.

Number of Workers	Pizzas Sold per Day
1	50
2	80
3	100
4	110

Assuming a restaurant sells pizzas at the rate of \$6 a pizza and hires workers at \$8 per hour to work an 8-hour day, how many workers should be hired in order to maximize profit?

- A. 1 worker
- B. 2 workers
- C. 3 workers
- D. 4 workers

12. Which of the following changes in economic indicators would most likely be interpreted as a sign that the economy is entering the contraction phase of a business cycle?
- A. an increase in the time required to make business deliveries
  - B. an increase in the prices of major commodities
  - C. an increase in the average work week of wage earners
  - D. an increase in business inventories on hand
13. Which of the following best describes the primary aim of government antitrust policy in the United States?
- A. to eliminate noncompetitive business practices
  - B. to prompt firms to consider the social costs of business operations
  - C. to provide economic incentives for business expansion
  - D. to increase the economic efficiency of business enterprises
14. Tariffs on an imported product generally lead to which of the following effects on competing domestic products?
- A. an increase in prices
  - B. an increase in demand
  - C. an increase in quality
  - D. an increase in exports
15. When operating facilities in less-developed countries, it is ethically most appropriate for international companies to do which of the following?
- A. promote the values of the company's country of origin
  - B. require local suppliers to sign exclusive contracts
  - C. take extra measures to protect the local environment
  - D. offer workers a discount on products the company produces

16. **Use the information below to complete the exercise that follows.**

The Shoe Barn is a sole proprietorship that sells shoes, sneakers, boots, gloves, and hats. The owner does the store's accounting. During the accounting period, the owner has recorded transactions in temporary capital accounts. At the end of the period, the owner must close, or reduce to zero, the balances in these temporary accounts and determine the net income or loss. Upon completion of this process, all permanent accounts must be updated and readied for the next accounting period.

Using your knowledge of accounting and finance, write a response in which you:

- identify the accounts involved in the process stated above; and
- describe the steps to take in the closing process.

17. **Use the information below to complete the exercise that follows.**

Tom and Diane are a two-income professional couple with four children. They have always made saving money a priority in their lives. Several years ago, they were earning approximately 5.5% on their savings. Currently, Tom and Diane are earning 3% on their savings while the inflation rate is approximately 6%.

Using your knowledge of economics, create a response that portrays and analyzes this situation. In your response:

- draw a diagram of the circular flow model detailing how government, businesses, and households are linked, including the effects of the economic situation outlined above; and
- explain the effects of this event on the flows of products, labor, and money between the government, business, and household sectors of the U.S. economy.



# Annotated Responses to Sample Multiple-Choice Questions for CSET: Business Subtest II

## Accounting and Finance

1. **Correct Response: B.** (SMR Code: 2.1) Smith's Accounting Service is receiving six copiers for a total cost of \$3,600. Thus, the asset account, Office Equipment, increases and is debited by \$3,600. Since the source document for this transaction is an invoice, Smith's Accounting Service is being billed for the copiers and now has an outstanding liability of \$3,600 owed to G & S Office Supplies. Therefore, the liability account, accounts payable, is increased or credited by \$3,600.
2. **Correct Response: B.** (SMR Code: 2.1) When it is determined that some accounts receivable are unlikely to be paid, they are often written off as uncollectible debt. In this case, the company would credit accounts receivable for the total uncollectible amount and the loss would be charged to bad debt expenses. These bad debt expenses would reduce the company's net profit for the quarter but would provide investors with an honest and accurate accounting of the company's finances.
3. **Correct Response: D.** (SMR Code: 2.1) One convenient feature of most computerized accounting systems is the ability to track the amount of taxes withheld from an individual's payroll check and then automatically journalize and post that information to the appropriate payroll accounts. This allows the company to accurately monitor its total tax liabilities quickly and easily.
4. **Correct Response: A.** (SMR Code: 2.2) The current ratio divides a company's current assets by its current liabilities. The quick ratio divides a company's cash and receivables by its current liabilities. These ratios measure a company's ability to pay its short-term debt and determine how quickly it can convert assets to cash in specific situations.
5. **Correct Response: B.** (SMR Code: 2.2) Variable costs are the costs per unit of a product that increase linearly with an increase in volume. Because the graph shows that the cost of film increases linearly with each photo taken, the costs shown on the graph are variable costs.
6. **Correct Response: A.** (SMR Code: 2.3) Term life insurance is generally the most inexpensive type of insurance, especially when purchased at a young age. A term insurance plan would provide the necessary coverage for Tina's and Malcolm's child in the event of Tina's or Malcolm's death. Since both parents have an excellent savings plan at work, they do not need to purchase a more expensive insurance plan that offers savings.
7. **Correct Response: D.** (SMR Code: 2.3) Leasing a car involves returning it to the seller while the car still has a certain amount of value. Generally, leasing has lower monthly payments than buying because the person leasing the car is only paying for a portion of the value of the car, while a person buying a car is paying for the car's full value.
8. **Correct Response: C.** (SMR Code: 2.3) Federal law allows an employee to make pretax contributions from income to an employer-administered 401(k) savings plan and allows earnings on 401(k) investments to be tax deferred.

## **Economics**

9. **Correct Response: B.** (SMR Code: 5.1) An opportunity cost is defined as the cost sacrificed by choosing one alternative over another. For example, the opportunity cost of going to college rather than working full time is the loss of possible wages during that time.
10. **Correct Response: C.** (SMR Code: 5.2) In the Demand for Tortilla Chips graph, the shift in demand curves from  $D_1$  to  $D_2$  indicates that for the range of prices represented, the demand for a given quantity of tortilla chips has decreased. One possible reason for this shift is that due to price decreases, consumers are purchasing more substitute snacks like chips and crackers, causing the demand for tortilla chips to decrease.
11. **Correct Response: C.** (SMR Code: 5.2) For the information given, the restaurant would maximize profit by hiring 3 workers because their revenue of \$600 (100 pizzas  $\times$  \$6) and labor expenses of \$192 (3 workers  $\times$  8 hours  $\times$  \$8/hour) would result in a net profit of \$408. This profit is higher than the profit made when hiring 1, 2, or 4 workers and selling the number of pizzas shown in the table.
12. **Correct Response: D.** (SMR Code: 5.3) The contraction phase of the business cycle typically occurs when firms' overall sales decrease. When sales are lower than forecasts, firms encounter increases in inventory, possibly signaling the beginning of the contraction phase.
13. **Correct Response: A.** (SMR Code: 5.3) In the United States, antitrust laws were established to keep companies from entering into agreements that would control trade through a monopoly. By restricting business activities that attempt to control trade, antitrust laws attempt to keep markets competitive.
14. **Correct Response: A.** (SMR Code: 5.4) Tariffs increase the cost of imported products. This allows competing domestic companies to increase the prices of their products and still compete successfully.
15. **Correct Response: C.** (SMR Code: 5.4) Most companies have established ethics codes. Ethics codes define an organization's guiding values, create an environment that supports ethically sound behavior, and stress a shared accountability among employees. Companies should have a concern for the welfare of society, especially when conducting business in a new geographic area. International companies should establish strict ethical and social responsibility policies that ensure the protection of the local environment before conducting business in other countries.

# Examples of Responses to Sample Constructed-Response Questions for CSET: Business Subtest II

## Accounting and Finance

### Question #16 (Strong Response)

The accounts Shoe Barn needs are:

an income summary

expenses

revenue

capital

The closing process at the end of the period should include the following steps:

1. Adjust entries needed for any asset that was not used during the accounting period.
2. Debit the income summary and credit all the expenses.
3. Debit the revenue account and credit the income summary.
4. If there is a net income, debit the income summary and credit capital.  
If there is a net loss, debit capital and credit the income summary.

Question #16 (Weak Response)

The accounts Shoe Barn needs are:

an operating account

a capital account

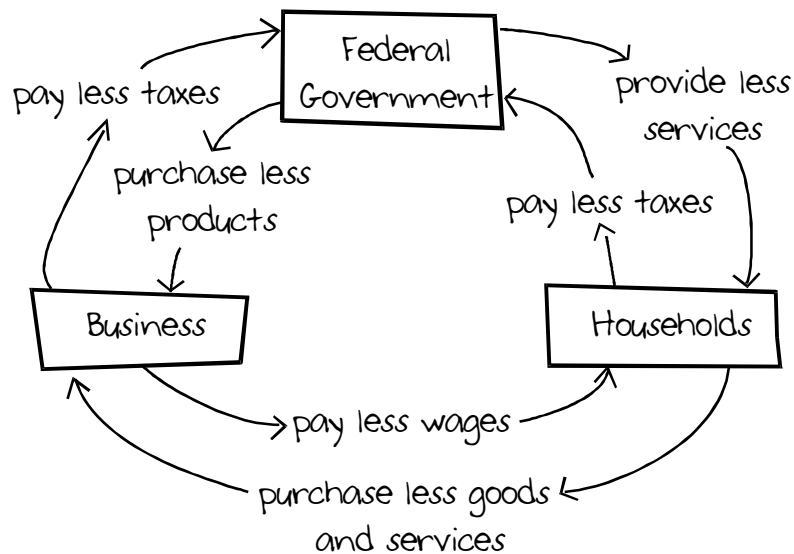
The closing process at the end of the period should include the following steps:

1. Credit all revenues for the period in the operating account
2. Debit all expenses for the period in the operating account
3. If there is a net income, credit the capital account.

If there is a net loss, debit the capital account.

Economics

Question #17 (Strong Response)



The situation described is one in which the return on savings has declined and is now substantially below the rate of inflation. This means personal income will

*continued on next page*

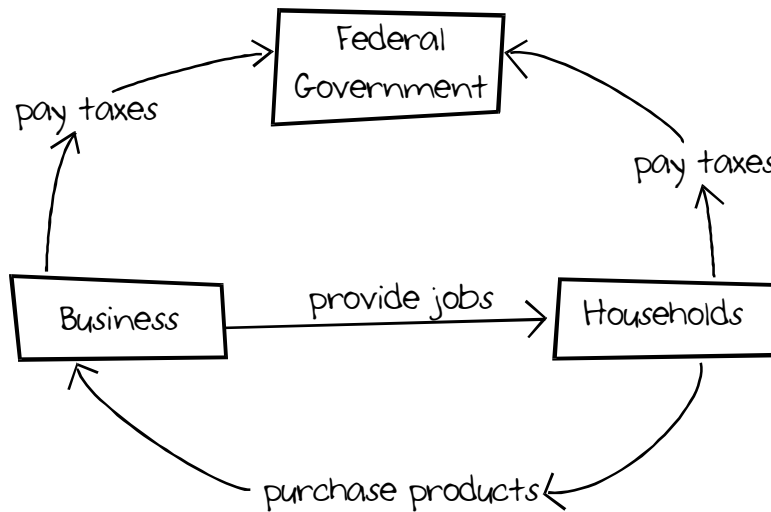
**Question #17 (Strong Response) *continued***

be less and there will be reduced demand for products. Businesses will therefore produce fewer products and have lower revenues. This will cause an increase in unemployment as businesses cut labor costs.

Businesses and households will pay less taxes, causing a reduction in federal revenues and therefore a reduction in government spending.

The GDP will decrease and the flow of money will decrease.

**Question #17 (Weak Response)**



In this situation, both households and businesses pay taxes, which provide income for the government. Households purchase products, which provides income for businesses. Businesses generate jobs, which provide income for households. It is all in balance, with each of the three entities receiving and expending income.

## Scoring Information for CSET: Business Subtest II

Responses to the multiple-choice questions are scored electronically. Scores are based on the number of questions answered correctly. There is no penalty for guessing.

There are two constructed-response questions in Subtest II of CSET: Business. Each of these constructed-response questions is designed so that a response can be completed within a short amount of time—approximately 10–15 minutes. Responses to the constructed-response questions are scored by qualified California educators using focused holistic scoring. Scorers will judge the overall effectiveness of your responses while focusing on the performance characteristics that have been identified as important for this subtest (see below). Each response will be assigned a score based on an approved scoring scale (see page 15).

Your performance on the subtest will be evaluated against a standard determined by the California Commission on Teacher Credentialing based on professional judgments and recommendations of California educators.

### Performance Characteristics for CSET: Business Subtest II

The following performance characteristics will guide the scoring of responses to the constructed-response questions on CSET: Business Subtest II.

<b>PURPOSE</b>	The extent to which the response addresses the constructed-response assignment's charge in relation to relevant CSET subject matter requirements.
<b>SUBJECT MATTER KNOWLEDGE</b>	The application of accurate subject matter knowledge as described in the relevant CSET subject matter requirements.
<b>SUPPORT</b>	The appropriateness and quality of the supporting evidence in relation to relevant CSET subject matter requirements.

## Scoring Scale for CSET: Business Subtest II

Scores will be assigned to each response to the constructed-response questions on CSET: Business Subtest II according to the following scoring scale.

SCORE POINT	SCORE POINT DESCRIPTION
3	<p>The "3" response reflects a command of the relevant knowledge and skills as defined in the subject matter requirements for CSET: Business.</p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is fully achieved.</li> <li>• There is an accurate application of relevant subject matter knowledge.</li> <li>• There is appropriate and specific relevant supporting evidence.</li> </ul>
2	<p>The "2" response reflects a general command of the relevant knowledge and skills as defined in the subject matter requirements for CSET: Business.</p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is largely achieved.</li> <li>• There is a largely accurate application of relevant subject matter knowledge.</li> <li>• There is acceptable relevant supporting evidence.</li> </ul>
1	<p>The "1" response reflects a limited or no command of the relevant knowledge and skills as defined in the subject matter requirements for CSET: Business.</p> <ul style="list-style-type: none"> <li>• The purpose of the assignment is only partially or not achieved.</li> <li>• There is limited or no application of relevant subject matter knowledge.</li> <li>• There is little or no relevant supporting evidence.</li> </ul>
U	<p>The "U" (Unscorable) is assigned to a response that is unrelated to the assignment, illegible, primarily in a language other than English, or does not contain a sufficient amount of original work to score.</p>
B	<p>The "B" (Blank) is assigned to a response that is blank.</p>