

BUSINESS LAW II

TEST INFORMATION

This test was developed to enable schools to award credit to students for knowledge equivalent to that learned by students taking the course. The school may choose to award college credit to the student based on the achievement of a passing score. The ultimate passing score for each examination is determined by the school. The school is provided with a recommended passing score established by a national committee of college faculty who teach these courses. The DSST program is approved by the American Council on Education (ACE), and the ACE provides both a recommended passing score and a recommended number of credits that could be awarded to successful students. Some schools set their own standards for awarding credit and may require a higher score than the ACE recommendation. Students should obtain this information from the institution from which they expect to receive credit.

CONTENT OUTLINE

The following is an outline of the content areas covered in the examination. The approximate percentage of the examination devoted to each content area is also noted.

I. Sales of Goods – 23%

- a. Application
- b. Contract formation
- c. Risk of loss and passage of title
- d. Performance and remedies
- e. Rights of *Bona Fide* purchasers for value
- f. Entrustment
- g. Warranties
- h. Product liability
- i. Defenses to Breach
- j. Documents of Title

II. Debtor and Creditor Relations – 18%

- a. UCC Article 9
- b. Other liens
- c. Bankruptcy
- d. Suretyship

III. Business Organizations – 26%

- a. Agency
- b. Partnerships
- c. Corporations
- d. LLCs and LLPs

IV. Property – 9%

- a. Personal property
- b. Fixtures
- c. Wills, trusts, estates

V. Commercial Paper – 24%

- a. Types of instruments
- b. Parties
- c. Elements of negotiability
- d. Transfer of paper and holders in due course
- e. Liability and defenses of the parties
- f. Bank deposits and collections

REFERENCES

The following is a list of reference publications that were being used as textbooks in college courses of the same or similar title at the time the test was developed. Appropriate textbooks for study are not limited to those listed below. If you wish to obtain study resources to prepare for the examination, you may reference either the current edition of the following titles **or** textbooks currently used at a local college or university for the same class title. It is recommended that you reference **more than one textbook** on the topics outlined in this fact sheet.

(Over)

You should **begin by checking textbook content against the content outline** included on the front page of this Fact Sheet **before** selecting textbooks that cover the test content from which to study.

Textbooks may be found at the campus bookstore of a local college or university offering a course on the subject. You are not allowed to use these references in the testing center.

1. *Business Law: Principles, Cases, Legal Environment*, Anderson, R.A.; Fox, I.; and Twomey, D.P. Cincinnati, OH: South-Western Publishing Co., current edition.
2. *Essentials of Business Law for a New Century*, Beatty, J.; and Samuelson, S. South-Western College Publishing, current edition.
3. *Business Law*, Cameron III, G.D.; and Scalletta Jr., P.J. San Diego, CA: Business Publications, Inc., current edition.
4. *West's Business Law*, Clarkson, K.W.; Miller, R.L.; and Jentz, G.A. Anaheim, CA: West Publishing Co., current edition.
5. *Principles of Business Law*, Corley, R.N.; Shedd, P.J.; and Holmes, E.M. Englewood Cliffs, NJ: Prentice-Hall, Inc., current edition.
6. *Principles of Business Law*, Frasca, J.L. Needham Heights, MA: Allyn and Bacon, current edition.
7. *Contemporary Business Law*, Hoerber, R.C. et al. New York: McGraw-Hill, current edition.
8. *Business Law, Text and Cases*, Howell, R.A.; Allison, J.R.; and Henley, N.T. Hinsdale, IL: The Dryden Press, current edition.
9. *Business Law and the Regulatory Environment*, Metzger, M.B. et al. Homewood, IL: Richard D. Irwin, Inc., current edition.
10. *Business Law*, Roszkowski, M.E. Glenview, IL: Scott, Foresman & Co., current edition.
11. *Smith and Roberson's Business Law*, Smith, L.N. et al. Anaheim, CA: West Publishing Co., current edition.
12. Current textbook used by a local college or university for a course on the subject.

SAMPLE QUESTIONS

All test questions are in a multiple-choice format, with one correct answer and three incorrect options. You may want to review these samples for the type of questions that may appear on the exam.

1. An endorser of a note makes transfer warranties by doing which of the following?
 - a. Endorsing the note
 - b. Transferring the instrument to a holder for value
 - c. Transferring the instrument for consideration
 - d. Presenting the note for payment
2. George Allen delivers to Alice Boyd a deed that states, "I hereby transfer my farm, Blackacre, to Alice Boyd for her lifetime." The deed creates a life estate in Alice Boyd and a
 - a. remainder in George Allen
 - b. remainder in Alice Boyd's heirs
 - c. reversion in George Allen
 - d. reversion in Alice Boyd's heirs
3. Andrew Abel is working for Nancy Pierce. During the course of the agency relationship, Abel executes negotiable instruments for Pierce. Which of the following signatures will always expose Abel to personal liability on the instruments?
 - a. Andrew Abel, Agent for Nancy Pierce
 - b. Andrew Abel, Agent
 - c. Andrew Abel, Nancy Pierce
 - d. Andrew Abel
4. Arnold Victor sold an airplane to Marian Sayles. Victor misrepresented the number of flying hours on the plane, stating that it had 1,800 hours when he knew the correct figure was 18,000 hours. Sayles put an additional 200 hours of flying time on the airplane, and then put it up for sale. Having believed Victor's misrepresentation, Sayles told Pat Boyer that the airplane had only 2,000 hours of flying time. Boyer then purchased the airplane for \$25,000. After discovering the true amount of flying time, Boyer sued Sayles for breach of express warranty and fraud. What liability does Sayles have to Boyer?
 - a. Sayles is liable for breach of express warranty relative to the number of flying hours because such a warranty does not depend upon what Sayles knew.

(Over)

- b. Sayles is liable because the misrepresentation by her concerning the number of flying hours constitutes fraud.
 - c. Sayles is not liable if the term “warranty” was never expressly used by her.
 - d. Sayles is not liable because she did not know that the statement regarding the number of hours was false.
5. Walter Brown is planning a winter camping trip to the Yukon. He contacts Do-Rite Hardware Store to purchase a sleeping bag fit for extreme cold. He informs the salesperson of his upcoming trip and asks for a recommendation. The salesperson selects a bag manufactured by Arctic Outfitters, designed for general use and not adequate for extreme cold. Brown buys the sleeping bag and uses it on his camping trip. As a result, he suffers frostbite and sues Do-Rite and Arctic for breach of warranty. Which of the following statements regarding the defendants’ liability is correct?
- a. Arctic is liable for breach of the warranty of merchantability
 - b. Do-Rite is liable for breach of the warranty of merchantability
 - c. Arctic is liable for breach of the warranty of fitness for a particular purpose
 - d. Do-Rite is liable for breach of the warranty of fitness for a particular purpose
6. Alfred, Baker, Cooper, and Dubold were general partners in a CPA firm. Dubold decided to retire and Ephram was brought in as a new partner. Mary Smith, a client of the previous partnership, sued Alfred, Baker, Cooper, Dubold, and Ephram for accounting malpractice which had occurred while Dubold was a partner but before Ephram became a partner. Assuming Smith's claim is valid and that she will prevail, who is liable?
- a. Alfred, Baker, and Cooper only are jointly and severally liable.
 - b. Alfred, Baker, and Cooper only are jointly and severally liable, and Ephram is liable up to the amount of Ephram’s capital contribution.
 - c. Alfred, Baker, Cooper, and Dubold only are jointly and severally liable.
 - d. Alfred, Baker, Cooper, and Dubold are jointly and severally liable, and Ephram is liable up to the amount of Ephram’s capital contribution.
7. The driver of a Fastest, Inc. delivery truck, knowing Fastest’s policy against careless driving, negligently ran a stop sign while making a delivery and caused an accident with Ashford. Ashford sues Fastest and the driver for injuries and damages. Which of the following statements is true regarding who is liable and why?
- a. The driver is liable, but Fastest is not because it has a policy against careless driving by its employees.
 - b. The driver is liable, but Fastest is not because the driver is an independent contractor.
 - c. Fastest is liable, but the driver is not because an employee is released from liability once the liability of the employer has been established.
 - d. Both the driver and Fastest are liable because the driver is an employee and is operating within the scope of his employment.
8. Warren Simmons is a surety for Angela Neddle, who owes \$500,000 to Wallie Celette. The debt is now due. Although able to pay, Neddle refuses to do so for no good reason. Celette seeks payment from Simmons, who will have to sell his real estate at great loss to cover Neddle’s debt. Simmons can avoid this difficulty by resorting to a surety’s right of
- a. reimbursement
 - b. subrogation
 - c. contribution
 - d. exoneration
9. Which of the following is true about a negotiable instrument that is endorsed “Pay to Steve Solar and only Steve Solar”?
- a. It is ineffective to transfer the instrument.
 - b. It destroys negotiability of the instrument.
 - c. It prevents further transfer of the instrument.
 - d. It permits further transfer by Steve Solar.

(Over)

10. On May 1, Steve Sterling drew a negotiable check payable to his landlord, Carol Baker, for \$400. The check was drawn on Allston Bank. The landlord misplaced the check and then found it on June 15. On June 16 she endorsed the check and deposited it into her account at Security Bank. Which of the following statements is true?
- Sterling is discharged from liability on the check.
 - Allston Bank does not have to honor the check because it is stale.
 - Allston Bank is the depository bank.
 - Allston Bank must honor the check if Sterling's account contains sufficient funds.

Answers to sample questions: 1-C; 2-C; 3-D; 4-A; 5-D; 6-D; 7-D; 8-D; 9-D; 10-D.

CREDIT RECOMMENDATIONS

The Center for Adult Learning and Educational Credentials of the American Council on Education (ACE) has reviewed and evaluated the DSST test development process for and content of this exam. It has made the following recommendations:

Area or Course Equivalent	Business Law II
Level	Upper-level baccalaureate
Amount of Credit	Three (3) semester hours
Source	ACE Commission on Education Credit and Credentials

It is advisable that schools develop a consistent policy about awarding credit based on scores from this test and that the policy be reviewed periodically. Prometric will be happy to help schools in this effort.

Rev. 20100316 - I.N. 390534