



# C8<sup>Q&As</sup>

Business Acumen for Compensation Professional

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**QUESTION 1**

Which of the following best describes the guiding principles and/or beliefs shared by stakeholders in an organization?

- A. Mission
- B. Vision
- C. Values
- D. Strategy

Correct Answer: C

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**QUESTION 2**

What challenge is most likely faced by a business with low market share and high growth potential?

- A. Its ability to generate profits is unknown.
- B. It is in the worst market position and has insufficient resources to continue operations.
- C. It is unclear how to best utilize the high cash flow to sustain growth.
- D. Its excess resources are often used to develop other businesses that may not be mission-critical.

Correct Answer: A

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**QUESTION 3**

The Alpha Company was once a strong company that commanded a high percentage of the market it operated in. In recent years, Alpha has been losing market share to competitors in its primary line of business and has been unable to find a competitive strategy to grow and return to profitability. Given its market position, how is Alpha most likely finding the monetary resources to continue operations?

- A. By using cash from other segments of the business
- B. By using its high credit rating from prior years to receive a line of credit until the strategy begins to work
- C. By selling its products and services at a loss until revenue increases and slowly raising prices until it begins to break even
- D. By identifying and duplicating the strategy used by its main competitor.

Correct Answer: A

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**QUESTION 4**

Which of the following is the earnings available to equity owners after paying debt and taxes?



- A. EBIT
- B. EPS
- C. Net income
- D. Operating profit

Correct Answer: C

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#### QUESTION 5

An organization whose focus is on obtaining capital, marketing products or services, sales growth and cash conservation is most likely to be in what stage of the business lifecycle?

- A. Start-up
- B. Growth
- C. Mature
- D. Decline

Correct Answer: A

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#### QUESTION 6

What is the most common term for the broad framework of principles and approaches that guide day-to-day decisions affecting the business, including how it positions itself in the market?

- A. The business plan
- B. The corporate objective
- C. The mission statement
- D. The competitive strategy

Correct Answer: D

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#### QUESTION 7

As a general rule, what are individual contributors most likely to ask about their compensation?

- A. What the take-home pay will be
- B. How their pay compares to co-workers
- C. How the company sets compensation budgets
- D. How the company makes pay decisions that affect them



Correct Answer: D

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### QUESTION 8

What information is found on the balance sheet?

- A. A list of what is owned, what is owed and the equity of an entity
- B. The revenues and expenses incurred by an entity over a period of time
- C. The change during the reporting period in cash and cash equivalents
- D. The profitability of the company as of a specific date

Correct Answer: A

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### QUESTION 9

How are the compensation communication needs of managers different from those of individual employees?

- A. They aren't. Managers are concerned about their compensation also.
- B. They are also responsible for merit increases, incentives and hiring so they have greater information needs.
- C. They tend to have more influence, so it is important to resolve any concerns they have quickly and efficiently.
- D. They have more duties and responsibilities and are less likely to have the time to discuss compensation issues.

Correct Answer: B

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### QUESTION 10

What happens to the marginal cost if revenue accelerates slower than variable costs but fixed costs remain the same?

- A. It remains the same.
- B. It decreases because variable costs are increasing.
- C. It increases at the same rate as variable costs.
- D. It becomes increasingly higher as revenues increase.

Correct Answer: D

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### QUESTION 11

To ensure appropriate funding levels, the compensation professional must generally do which of the following?

- A. Possess a high level of education and competency in accounting principles



- B. Determine which programs are crucial to the enterprise and which programs are expendable
- C. Partner with multiple departments and external consultants and vendors
- D. Demonstrate broad understanding of principles of financial management and business expertise

Correct Answer: D

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#### QUESTION 12

What is the most likely explanation for why compensation and rewards require a strong grasp of business acumen for compensation professionals?

- A. Because the internal and external environments are constantly changing
- B. Because the best interests of the organization take priority, which can lead to difficult decisions and implementation issues
- C. Because they are emotional issues and stakeholders have many vested interests
- D. Because strong business acumen is required for all compensation decisions

Correct Answer: C

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#### QUESTION 13

What best describes what forecasting helps the organization to do?

- A. Recognize possible issues and concerns that will drive budget planning
- B. Prepare quarterly and annual reports and their associated statements
- C. Withhold payroll taxes for all elements of compensation
- D. Anticipate future capital needs by determining when the organization will enter the next phase of the business lifecycle

Correct Answer: A

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#### QUESTION 14

If a company has a higher percentage of employees with fixed compensation than variable compensation, what happens as revenues increase?

- A. Compensation costs eventually stabilize and become a consistent percent of revenue.
- B. Compensation costs and revenue increase at approximately the same rate.
- C. Compensation costs eventually decrease as a percent of revenue, increasing profit growth.
- D. Compensation costs remain the same as a percent of revenue until variable compensation costs exceed fixed



compensation costs.

Correct Answer: C

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#### QUESTION 15

What best describes a use of strategic analysis?

- A. Pricing your products appropriately
- B. Understanding your business and its competitive strengths and weaknesses
- C. Forecasting profit, growth and investment performance to develop realistic budgets
- D. Evaluating prior year performance for the narrative portion of annual financial reports

Correct Answer: B

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