



BUSINESS-ENVIRONMENT-AND- CONCEPTS^{Q&As}

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QUESTION 1

Which of the following requirements must be met to have a valid partnership exist?

I. Co-ownership of all property used in a business.

II.

Co-ownership of a business for profit.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: B

Choice "b" is correct.

Rule: A partnership is defined as an association of two or more persons who agree to carry on as coowners a business for profit. Thus, II is necessary. However, there is no requirement that all property used in the business be co-owned; it may be owned by individual partners. Thus I is not necessary.

Choices "a", "c", and "d" are incorrect, per the above rule.

QUESTION 2

Locke and Vorst were general partners in a kitchen equipment business. On behalf of the partnership, Locke contracted to purchase 15 stoves from Gage. Unknown to Gage, Locke was not authorized by the partnership agreement to make such contracts. Vorst refused to allow the partnership to accept delivery of the stoves and Gage sought to enforce the contract. Gage will:

A. Lose, because Locke's action was not authorized by the partnership agreement.

B. Lose, because Locke was not an agent of the partnership.

C. Win, because Locke had express authority to bind the partnership.

D. Win, because Locke had apparent authority to bind the partnership.



Correct Answer: D

Choice "d" is correct. Every partner is an agent of the partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership. It would be usual for a partner in a kitchen equipment business to have authority to purchase stoves. Thus, Gage will win because of Locke's apparent authority. Choice "a" is incorrect. Every partner is an agent for his partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership. Choice "b" is incorrect. Every partner is an agent of the partnership. Choice "c" is incorrect. Locke did not have express authority to purchase the stoves. The facts state that Locke was not authorized to purchase the stoves and thus lacked express authority.

QUESTION 3

If the federal government were to regulate a product or service in a competitive market by setting a maximum price that is below the equilibrium price, then in the long run this action will:

- A. Result in a surplus.
- B. Result in a shortage.
- C. Cause a decrease in price.
- D. Have no effect on the market.

Correct Answer: B

Choice "b" is correct. Setting a maximum or ceiling price, which is below the equilibrium price dictated by a competitive market, would result in a shortage as a result of excess demand.

Choices "a", "c", and "d" are incorrect, per the above Explanation.

QUESTION 4

In a general partnership, the authorization of all partners is required for an individual partner to bind the partnership in a business transaction to:

- A. Purchase inventory.
- B. Hire employees.
- C. Sell goodwill.
- D. Sign advertising contracts.

Correct Answer: C

Choice "c" is correct. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. No such authority exists, however, for transactions outside the regular scope of business. The sale of a business's goodwill is extraordinary and is outside the ordinary scope of business. Thus, a partner must get authorization from all other partners to make the sale. Choice "a" is incorrect. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. Purchasing inventory is within the regular scope of business, so a partner need not get permission from the other partners to bind the partnership. Choice "b" is incorrect. All partners have apparent authority to enter into transactions apparently within the regular



scope of the partnership business. Hiring employees is within the regular scope of a business, so a partner need not get permission from the other partners to bind the partnership. Choice "d" is incorrect. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. Entering into advertising contracts is within the regular course of business, and so a partner need not get permission from the other partners to bind the partnership.

QUESTION 5

An increase in the money supply leads to:

- A. A decline in interest rates, an increase in investment and an increase in aggregate demand.
- B. A decline in interest rates, a decrease in investment and an increase in aggregate demand.
- C. An increase in interest rates, a decrease in investment and a decrease in aggregate demand.
- D. An increase in the money supply has no effect on interest rates or investment.

Correct Answer: A

Choice "a" is correct. Expansionary monetary policy results when the Fed increases the money supply.

Expansionary monetary policy affects the economy through the following chain of events: (1) an increase in the money supply causes interest rates to fall, (2) falling interest rates stimulate the desired levels of firm investment and household consumption, (3) increases in desired investment and consumption cause an increase in aggregate demand, and (4) aggregate demand shifts to the right causing real GDP and the price level to rise.

Choice "b" is incorrect. An increase in the money supply causes investment to increase, not decrease.

Choice "c" is incorrect. An increase in the money supply causes interest rates to decrease, not increase, investment to increase, not decrease and aggregate demand to increase, not decrease.

Choice "d" is incorrect per above Explanation.

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