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QUESTION 1

In 1992, Anchor, Chain, and Hook created ACH Associates, a general partnership. The partners orally agreed that they would work full time for the partnership and would distribute profits based on their capital contributions. Anchor contributed \$5,000; Chain \$10,000; and Hook \$15,000. For the year ended December 31, 1993, ACH Associates had profits of \$60,000 that were distributed to the partners. During 1994, ACH Associates was operating at a loss. In September 1994, the partnership dissolved. In October 1994, Hook contracted in writing with Ace Automobile Co. to purchase a car for the partnership. Hook had previously purchased cars from Ace Automobile Co. for use by ACH Associates partners. ACH Associates did not honor the contract with Ace Automobile Co. and Ace Automobile Co. sued the partnership and the individual partners.

- A. Anchor's share of ACH Associates' 1993 profits was \$20,000.
- B. Hook's share of ACH Associates' 1993 profits was \$30,000.

Correct Answer: B

Choice "b" is correct. Unless otherwise agreed, partners share profits equally. Here, the partners agreed to share profits on the basis of their contributions, which were in a ratio of 1:2:3 respectively for Anchor, Chain, and Hook. Thus, Anchor's share of the 1993 profits was \$10,000, Chain's share was \$20,000, and Hook's share was \$30,000.

QUESTION 2

When does competition not become an even stronger force impacting the profitability of a firm?

- A. The market consists of several equal-sized firms.
- B. Customers do not have strong brand preferences.
- C. The market is fast-growing.
- D. The costs of exiting the market exceed the costs of continuing to operate.

Correct Answer: C

Choice "c" is correct, as it is not a factor that would cause market competitiveness to be even stronger.

Choices "a", "b", and "d" are incorrect because they are all reasons that competition becomes an even stronger force that impacts the firm's profitability. The following are situations that would cause competition to be an even stronger force impacting the profitability of a firm:

- ?The market is not growing fast.
- ?There are several equal-sized firms in the market.
- ?Customers do not have strong brand preferences.
- ?The costs of exiting the market exceed the costs of continuing to operate.
- ?Some firms profit from making certain moves to increase market share.



?The various firms in the market use different types of strategic plans.

QUESTION 3

RLF Corporation had income before taxes of \$60,000 for the year 1991. Included in this amount was depreciation of \$5,000, a charge of \$6,000 for the amortization of bond discounts, and \$4,000 for interest expense. The estimated cash flow for the period is:

- A. \$66,000
- B. \$49,000
- C. \$71,000
- D. \$65,000

Correct Answer: C

Choice "c" is correct. Cash flow is computed from net income by adding back non-cash expenses like depreciation and amortization. Presumably, interest expense has been paid (i.e., is not "accrued" interest) and should not be added back.

| | |
|---------------------------|-----------------|
| Net Income | \$60,000 |
| Add: Depreciation expense | \$ 5,000 |
| Amortization expense | \$ 6,000 |
| Cash flow | <u>\$71,000</u> |

Choices "a", "b", and "d" are incorrect, per above.

QUESTION 4

A sharp rise in the price of oil (a major input), would result in:

- A. Cost (Push) inflation.
- B. Demand (Pull) inflation.
- C. An increase in aggregate demand.
- D. An increase in aggregate supply.

Correct Answer: A

Choice "a" is correct. Cost (Push) inflation is inflation caused by a shift left in aggregate supply. An increase in input costs, such as a sharp increase in the price of oil, will cause the aggregate supply curve to shift left and thus increase the aggregate price level causing inflation.



Choice "b" is incorrect. Demand (Pull) inflation is inflation caused by a shift right in aggregate demand.

Choice "c" is incorrect. An increase in the price of oil causes the aggregate supply curve to shift, not the aggregate demand curve.

Choice "d" is incorrect. An increase in the price of oil will cause aggregate supply to decrease (shift left), not increase.

QUESTION 5

Jackson Distributors sells to retail stores on credit terms of 2/10, net 30. Daily sales average 150 units at a price of \$300 each. Assuming that all sales are on credit and 60 percent of customers take the discount and pay on Day 10 while the rest of the customers pay on Day 30, the amount of Jackson's accounts receivable is:

- A. \$990,000
- B. \$900,000
- C. \$810,000
- D. \$450,000

Correct Answer: C

Choice "c" is correct. \$810,000 accounts receivable.

| | <u>60%</u> | <u>40%</u> | <u>100%</u> |
|---------------------------|-----------------------|-----------------------|-------------------------|
| Unit Sales Price | \$ 300 | \$ 300 | \$ 300 |
| Daily Sales Average Units | × 90 | × 60 | × 150 |
| Daily Sales | <u>\$27,000</u> | <u>\$18,000</u> | <u>\$ 45,000</u> |
| Days Outstanding | × 10 | × 30 | |
| | <u><u>270,000</u></u> | <u><u>540,000</u></u> | <u><u>\$810,000</u></u> |

Choices "a", "b", and "d" are incorrect, per the above calculation.

QUESTION 6

In situations when management must decide on accepting or rejecting one-time-only special orders, where there is sufficient idle capacity, which one of the following is not relevant to the decision?

- A. Absorption costs.
- B. Direct costs.
- C. Variable costs.



D. Incremental costs.

Correct Answer: A

Choice "a" is correct. Absorption costs are not relevant in situations when management must decide on accepting or rejecting one-time-only special orders, and where there is sufficient idle capacity. All of the following costs are relevant in such situations:

B. Direct costs

C. Variable costs

D. Incremental costs

QUESTION 7

Why would a firm generally choose to finance temporary assets with short-term debt?

A. Matching the maturities of assets and liabilities reduces risk.

B. Short-term interest rates have traditionally been more stable than long-term interest rates.

C. A firm that borrows heavily long term is more apt to be unable to repay the debt than a firm that borrows heavily short term.

D. Financing requirements remain constant.

Correct Answer: A

Choice "a" is correct. Matching the maturities of current assets with liabilities as they come due is designed to ensure liquidity and reduce risk of cash shortages. Temporary assets (such as inventories, generally, and seasonal inventories, specifically) might be financed with short term debt such that the earnings from the sales of those temporary assets could be used to liquidate the related obligations as they come due and ensure that cash is available to meet cash flow requirements. Choice "b" is incorrect. Interest rate risks would likely motivate a firm to use longer term financing than short-term financing. Choice "c" is incorrect. Matching cash inflows with cash outflows are more influential in determining a firm's ability to repay debt rather than the length of the obligation. Choice "d" is incorrect. Long-term rather than short-term debt promotes consistent finance charges. The requirements for financing itself are driven by business practice, not by the maturity of financial instruments used.

QUESTION 8

Jordan Industries is the leader in its market for producing high-quality cat food for cats that require special diets. While it has been able to sustain competitive advantage for years, Jordan's management has implemented a strategic framework that focuses on why the firm has been so successful in its market. Jordan Industries has implemented which type of strategic framework?

A. Industry structure analysis.

B. Core competencies analysis.

C. Segmentation analysis.

D. None of the above.



Correct Answer: B

Choice "b" is correct. Analysis of the core competencies of a firm help it to determine why it is able to create, attain, and sustain new types of competitive advantage and profits and reveal what it is within the firm that enables it to obtain competitive advantage. Choice "a" is incorrect. Industry structure analysis assists in determining what it is that makes a firm more profitable compared to another firm, and it looks at five forces that influence profitability of an industry or market and, thus, the competitive environment. Choice "c" is incorrect. Segmentation analysis is a possibility when a firm is vertically integrated and when the industry structure and core competencies vary among activities in the value chain. Choice "d" is incorrect, as choice "b" is the answer to the question.

QUESTION 9

Which tool would most likely be used to determine the best course of action under conditions of uncertainty?

- A. Cost-volume-profit analysis.
- B. Expected value (EV).
- C. Program evaluation and review technique (PERT).
- D. Scattergraph method.

Correct Answer: B

Choice "b" is correct. Probability and expected value formulate quantitative models to address the issue of appropriate course of action in an environment of uncertainty. The expected value is a weighted average of all values and variables.

The course of action with the highest expected monetary value should be selected.

Choice "a" is incorrect. Cost-volume profit analysis is a method used to evaluate operating decisions.

Choice "c" is incorrect. PERT is a technique used in project management that focuses on the time required to complete each step in a project. It allows a project manager to monitor a project's progress and identify potential bottlenecks or delays that will postpone the completion date.

Choice "d" is incorrect. The scattergraph method is used in statistical analysis to plot relationships between variables to determine a line function that best describes those relationships.

QUESTION 10

Under the Revised Model Business Corporation Act, which of the following actions by a corporation would entitle a stockholder to dissent from the action and obtain payment of the fair value of his/her shares?

- I. An amendment to the articles of incorporation that materially and adversely affects rights in respect of a dissenter's shares because it alters or abolishes a preferential right of the shares.
- II.



Consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares will be acquired, if the stockholder is entitled to vote on the plan.

- A.
I only.
- B.
II only.
- C.
Both I and II.
- D.
Neither I nor II.

Correct Answer: C

Choice "c" is correct. "Both I and II."

Rule: Shareholders who vote against a share exchange are entitled to payment for fair value of their shares.

Rule: Preferred shareholders who dissent to having their preferential rights altered or abolished have dissenters' rights to be paid the fair value of their shares.

Choices "a", "b", and "d" are incorrect, per the above rules.

QUESTION 11

All of the following actions are valid tools that the Federal Reserve Bank uses to control the supply of money, except:

- A. Selling government securities.
- B. Changing the reserve ratio.
- C. Raising or lowering the discount rate.
- D. Printing money when the money supply appears low.

Correct Answer: D

Choice "d" is correct. The treasury prints money. The Fed must increase the money supply through:

1.
Federal open market committee (FOMC) purchasing or selling government securities,



2.

Raising or lowering the discount rate, or

3.

Changing the reserve ratio.

Choices "a", "b", and "c" are incorrect because they are all valid tools to control the supply of money.

QUESTION 12

Which of the following statements is correct regarding the division of profits in a general partnership when the written partnership agreement only provides that losses be divided equally among the partners?

Profits are to be divided:

- A. Based on the partners' ratio of contribution to the partnership.
- B. Based on the partners' participation in day-to-day management.
- C. Equally among the partners.
- D. Proportionately among the partners.

Correct Answer: C

Choice "c" is correct.

Rule: When the partnership agreement is silent as to how profits are to be divided, they are divided equally. Note also that when the agreement is silent, losses are treated similar to profits, there is no reverse rule that profits are treated like losses.

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

QUESTION 13

Which of the following statements is(are) correct regarding the methods a target corporation may use to ward off a takeover attempt?

- I. The target corporation may make an offer ("self-tender") to acquire stock from its own shareholders.
- II.

The target corporation may seek an injunction against the acquiring corporation on the grounds that the attempted takeover violates federal antitrust law.

A.

I only.



- B.
- II only.
- C.
- Both I and II.
- D.
- Neither I nor II.

Correct Answer: C

Choice "c" is correct.

Rule: A tender offer is a general invitation by a bidder to the shareholders of a target company to tender their shares to the bidder at a specified price during a specified time. A target of a takeover may ward off a tender offer by offering to repurchase shares from its shareholders. If a takeover will violate federal antitrust law, a court will enjoin the takeover.

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

QUESTION 14

A member of a limited liability company may generally do all of the following, except:

- A. Transfer his membership in the company without the consent of the other members.
- B. Participate in the management of the company absent an agreement to the contrary.
- C. Have limited liability.
- D. Order office supplies for the company.

Correct Answer: A

Choice "a" is correct. The transfer of a member interest requires the consent of the other members. Members may not assign their interest without the other members' consent. Choice "b" is incorrect. Unless the members have agreed to operate as a manager managed limited liability company, all members have the power to participate in management. Choice "c" is incorrect. Members in a limited liability company all have limited personal liability. Choice "d" is incorrect. Unless otherwise agreed, members have the right to manage the every day operations of a limited liability company. This can include the ordering of office supplies.

QUESTION 15

A general partnership must:

- A. Pay federal income tax.



- B. Have two or more partners.
- C. Have written articles of partnership.
- D. Provide for apportionment of liability for partnership debts.

Correct Answer: B

Choice "b" is correct. A partnership is an organization of two or more persons who carry on a business for a profit.

Choice "a" is incorrect. Partnerships do not pay federal income taxes; the partners report their shares of the partnership's income on their individual returns.

Choice "c" is incorrect. A partnership agreement need not be in writing.

Choice "d" is incorrect. If the partnership agreement is silent on the apportionment of liability for partnership debts, state law or the Uniform Partnership Act will cover the omission.

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