

# **BUSINESS-ENVIRONMENT-AND- CONCEPTS<sup>Q&As</sup>**

Certified Public Accountant (Business Environment & Concept)

**Pass Test Prep BUSINESS-ENVIRONMENT-AND-  
CONCEPTS Exam with 100% Guarantee**

Free Download Real Questions & Answers **PDF** and **VCE** file from:

<https://www.certbus.com/business-environment-and-concepts.html>

**100% Passing Guarantee**  
**100% Money Back Assurance**

Following Questions and Answers are all new published by Test Prep  
Official Exam Center

- ⚙️ **Instant Download** After Purchase
- ⚙️ **100% Money Back** Guarantee
- ⚙️ **365 Days** Free Update
- ⚙️ **800,000+** Satisfied Customers



### QUESTION 1

Which one of the following factors might cause a firm to increase the debt in its financial structure?

- A. An increase in the corporate income tax rate.
- B. Increased economic uncertainty.
- C. An increase in the price/earnings ratio.
- D. A decrease in the times interest earned ratio.

Correct Answer: A

Choice "a" is correct. An increase in the corporate income tax rate might cause a firm to increase the debt in its financial structure because interest is tax deductible, while dividends are paid after-tax. Choice "b" is incorrect. Increased economic uncertainty would cause a firm to decrease debt (and interest cost). Choice "c" is incorrect. An increase in the price/earnings ratio would encourage the issuance of equity rather than debt. Choice "d" is incorrect. A decrease in the times interest earned ratio indicates that earnings have declined compared with interest, and that more debt would be unwise (and more difficult to negotiate).

---

### QUESTION 2

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. Ace Automobile Co. would lose a suit brought against ACH Associates because Hook, as a general partner, has no authority to bind the partnership.
- B. Ace Automobile Co. would win a suit brought against ACH Associates because Hook's authority continues during dissolution.

Correct Answer: B

Choice "b" is correct. A partner's authority to bind the partnership continues after dissolution to persons who have extended credit to the partnership previously and who are without notice of the dissolution. The facts state that Hook had previously purchased cars for the partnership from Ace, and presumably the purchases were on credit. Since nothing in the facts indicates that Ace was given notice of the dissolution, the partnership will be bound.

---

### QUESTION 3

Which of the following documents would most likely contain specific rules for the management of a business corporation?

- A. Articles of incorporation.

- B. Bylaws.
- C. Certificate of authority.
- D. Shareholders\\ agreement.

Correct Answer: B

Choice "b" is correct. The bylaws are adopted by the incorporators or directors, are not required to be filed, and generally will contain rules desired regarding the operation of the corporation. Choice "a" is incorrect. Articles of incorporation are filed with the state and contain information regarding the formation of the corporation. Choice "c" is incorrect. A certificate of authority is filed with the foreign state that a business wishes to do business in and with permission from that state. Choice "d" is incorrect. A shareholder agreement is a contract between shareholders for any rights or duties agreed upon between the parties.

---

#### QUESTION 4

A partnership agreement must be in writing if:

- A. Any partner contributes more than \$500 in capital.
- B. The partners reside in different states.
- C. The partnership intends to own real estate.
- D. The partnership\\'s purpose cannot be completed within one year of formation.

Correct Answer: D

Choice "d" is correct. Under the statute of frauds, a partnership agreement must be in writing if by its terms the agreement cannot be completed within one year. Choice "a" is incorrect. No such rule. Although the statute of frauds requires a contract for the sale of goods for \$500 or more to be evidenced by a writing, a writing is not required to contribute more than \$500 in capital to a partnership.

Choice "b" is incorrect. No such rule, a far out distracter.

Choice "c" is incorrect. While a contract to buy or sell real estate will require a writing, a partnership agreement to own/buy real estate need not be in writing.

---

#### QUESTION 5

Which of the following ratios is appropriate for the evaluation of accounts receivable?

- A. Days sales outstanding.
- B. Return on total assets.
- C. Collection to debt ratio.
- D. Current ratio.

Correct Answer: A

Choice "a" is correct. Among the ratios listed, the ratio that is appropriate for the evaluation of accounts receivable is the number of days sales are outstanding. Sales are related to accounts receivable, so the more days the sales are outstanding, the longer the receivables are outstanding. Choice "b" is incorrect. Return on total assets is not appropriate for the evaluation of accounts receivable. It is appropriate for the evaluation of return and of total assets, but not for the evaluation of account receivable specifically. Choice "c" is incorrect. The collection to debt ratio has nothing to do with the evaluation of accounts receivable. Choice "d" is incorrect. The current ratio is appropriate for the evaluation of liquidity (one of the ways to evaluate liquidity) but has nothing to do with the evaluation of accounts receivable, other than that accounts receivable is in the numerator of the current ratio.

#### QUESTION 6

Which of the following correctly lists the three ways to increase the money supply?

- A. Raise the required reserve ratio, increase the discount rate, sell bonds in the open market.
- B. Raise the required reserve ratio, increase the discount rate, buy bonds in the open market.
- C. Lower the required reserve ratio, increase the discount rate, buy bonds in the open market.
- D. Lower the required reserve ratio, decrease the discount rate, buy bonds in the open market.

Correct Answer: D

Choice "d" is correct. The three ways the Fed can increase the money supply are: (1) buy (purchase) government securities in the open market, (2) lower the discount rate, and (3) lower the required reserve ratio.

Choice "a" is incorrect, per above Explanation.

Choice "b" is incorrect, per above Explanation.

Choice "c" is incorrect, per above Explanation.

#### QUESTION 7

Doug was the sole general partner in Heavy Foot, Limited Partnership. While driving to work one morning, Doug died in a car accident. The limited partnership:

- A. Continues to exist as it was before Doug's death.
- B. Dissolves by operation of law as a result of Doug's death.
- C. Dissolves only by attaining a judicial decree.
- D. Converts to a general partnership and all former limited partners become general partners.

Correct Answer: B

Choice "b" is correct.

Rule: The death of a general partner will by operation of law, dissolve the limited partnership. Because the

dissolution is by operation of law, there is no requirement to attain a judicial decree. Remaining limited partners do not automatically become general partners as a result of the death of the general partner.

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

**QUESTION 8**

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 9**

As a company becomes more conservative with respect to working capital policy, it would tend to have a (n):

- A. Increase in the ratio of current liabilities to noncurrent liabilities.
- B. Decrease in the operating cycle.
- C. Decrease in the quick ratio.
- D. Increase in the ratio of current assets to noncurrent assets.

Correct Answer: D

RULE: Working capital policy is deemed to be more conservative as an increasing portion of an organization's long-

term assets, permanent current assets, and temporary current assets are funded by long-term financing.

Choice "d" is correct. An increase in the ratio of current assets to non-current assets would be indicative of an increasingly conservative working capital policy. With no other information, an increase in current assets would indicate that a growing percentage of current assets are financed by non current liabilities and that, nominally, the absolute amount of working capital and the current ratio is improving.

Choice "a" is incorrect. An increase in the ratio of current liabilities to noncurrent liabilities would indicate that an increasing portion of our assets are funded by current liabilities, a more aggressive approach to working capital management.

Choice "b" is incorrect. A decrease in the operating cycle implies that the time to convert inventory into sales (receivables) and receivables into cash has decreased. Assuming no change in liabilities or sales, a decreased operating cycle infers declining current asset balances, greater funding of assets by current liabilities and a more aggressive rather than conservative working capital policy.

Choice "c" is incorrect. A decrease in the quick ratio would indicate that either temporary current assets are decreasing (and are therefore increasingly funded by current liabilities, indicating a more aggressive working capital policy) or that current liabilities are increasing, signaling a decrease in the amount of noncurrent liabilities used to fund temporary current assets, a sign of an increasingly aggressive working capital policy.

---

#### **QUESTION 10**

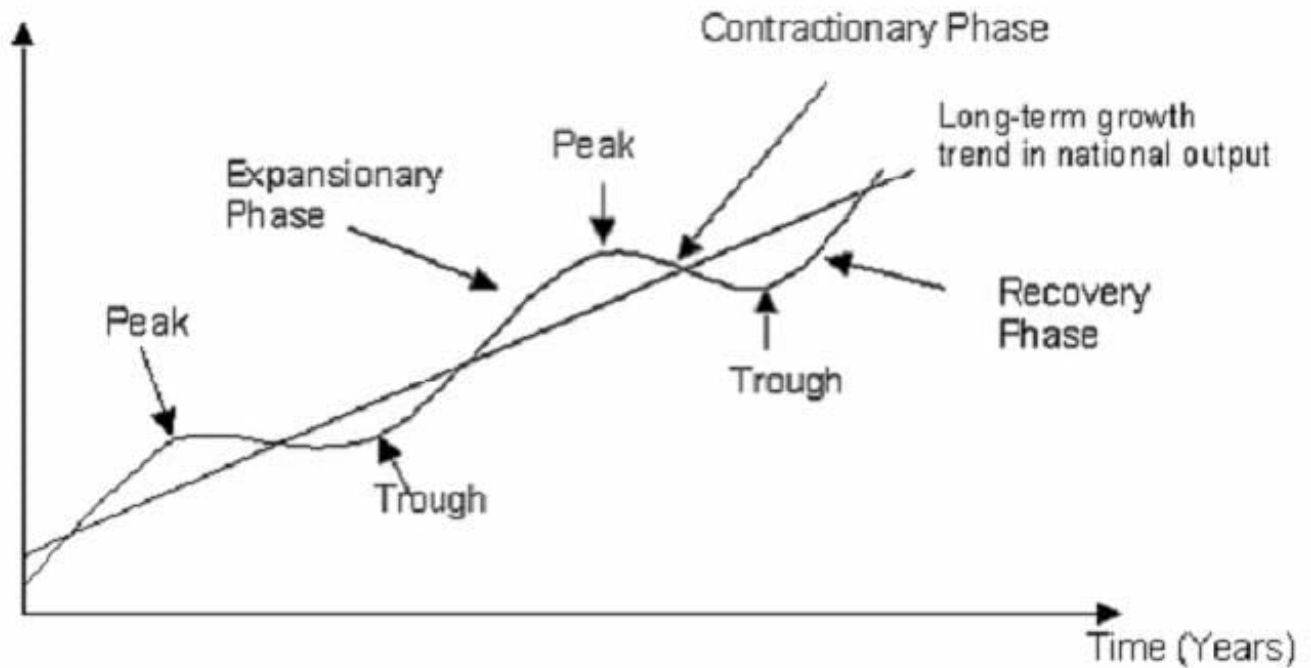
Which one of the following most accurately describes the normal sequence of a business cycle?

- A. Expansion, contraction, trough, and peak.
- B. Expansion, peak, contraction, and trough.
- C. Peak, contraction, expansion, and trough.
- D. Trough, contraction, expansion, and peak.

Correct Answer: B

**Graph A**

Output (Real GDP)



Choice "b" is correct. The sequence of a typical business cycle includes an expansionary phase, a peak of economic activity, a contractionary phase, and a trough of economic activity.

Choice "a" is incorrect. A peak does not follow a trough.

Choice "c" is incorrect. A trough does not follow an expansion.

Choice "d" is incorrect. A contraction does not follow a trough.

**QUESTION 11**

Which of the following is not necessary to create an express partnership?

- A. Execution of a written partnership agreement.
- B. Agreement to share ownership of the partnership.
- C. Intention to conduct a business for profit.
- D. Intention to create a relationship recognized as a partnership.

Correct Answer: A

Choice "a" is correct. A written partnership agreement, while certainly desirable, is not usually necessary to form a valid partnership; partnership agreements are not normally subject to the statute of frauds. Choice "b" is incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. Thus, an agreement to share ownership of the partnership is a requirement for creating an express partnership. Choice "c" is



incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. Thus, an intent to carry on a business for a profit is a requirement for creating an express partnership. Choice "d" is incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. The intent to create a business relationship recognized as a partnership is a requirement for creating an express partnership.

#### QUESTION 12

In evaluating a capital budget project, the use of the net present value model is generally not affected by the:

- A. Method of funding the project.
- B. Initial cost of the project.
- C. Amount of added working capital needed for operations during the term of the project.
- D. Amount of the project's associated depreciation tax allowance.

Correct Answer: A

Choice "a" is correct. The method of funding the project has no effect on the net present value model. NPV uses a hurdle rate to discount cash flows. If the NPV is positive, the project is acceptable. The method of financing the project, and the cost, are independent of the process of screening the project for acceptability. Choice "b" is incorrect. The initial cost is one of the most important items in the calculation of NPV. Choice "c" is incorrect. Added working capital requirements and salvage value affect cash flow. All cash flows are used in the NPV model. Choice "d" is incorrect. The tax depreciation allowance will provide a "tax shield" or tax savings that impacts cash flow and must be considered in NPV analysis.

#### QUESTION 13

Limitations of the information provided by total asset turnover include:

- A. A good measure for trend analysis of a particular company, but variable ways of calculating cost of goods sold limit its usefulness for comparative analysis.
- B. The calculation can be affected by varying accounting assumptions, which affect the calculation of net income.
- C. Because of differing costs of capital, the measure cannot be effectively used for comparative analysis.
- D. When making the calculation, total assets may need to be refined by the elimination of assets that do not relate to sales as the inclusion of these items could distort the measure.

Correct Answer: D

Choice "d" is correct. When calculating the turnover, total assets may need to be refined by the elimination of assets that do not relate to sales as the inclusion of these items could distort the measure.

Choice "a" is incorrect. This option pertains to gross profit margin.

Choice "b" is incorrect. This option pertains to return on the investment in assets.

Choice "c" is incorrect. This option pertains to residual income.

#### QUESTION 14

If no provisions are made in an agreement, a general partnership allocates profits and losses based on the:

- A. Value of actual contributions made by each partner.
- B. Number of partners.
- C. Number of hours each partner worked in the partnership during the year.
- D. Number of years each partner belonged to the partnership.

Correct Answer: B

Choice "b" is correct. Absent an agreement to the contrary, all partners have equal rights to share in the profits of the partnership.

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

---

#### QUESTION 15

If the demand for a normal good is inelastic, then the sales price of the product would increase following a (n):

- A. Decrease in the price of a substitute good.
- B. Increase in the supply of the product.
- C. Decrease in the supply of the product.
- D. Increase in the number of suppliers of the product.

Correct Answer: C

Choice "c" is correct. If demand is perfectly inelastic (or not price sensitive), there will be no change in quantity demanded for a change in price. This means that consumers of the product will demand a constant quantity, regardless of the price. If the quantity supplied is reduced (presumably below an equilibrium point where supply equals demand), there will be excess demand for the product and sales price will go up. The increase in sales price will have no impact on demand (because demand is assumed to be perfectly price inelastic). Choices "a", "b", and "d" are incorrect, per the above Explanation.

[Latest BUSINESS-ENVIRONMENT-AND-CONCEPTS Dumps](#)

[BUSINESS-ENVIRONMENT-AND-CONCEPTS PDF Dumps](#)

[BUSINESS-ENVIRONMENT-AND-CONCEPTS Study Guide](#)