BUSINESS-ENVIRONMENT-AND-CONCEPTS Q&As

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

Which of the following would most likely cause real GDP to increase the most:

A. A rise in interest rates and a rise in input costs.

B. A fall in interest rates and a fall in input costs.

C. A rise in wealth and a rise in interest rates.

D. A rise in consumer confidence and a fall in government spending.

Correct Answer: B

Choice "b" is correct. A decline in interest rates would cause the aggregate demand curve to shift right, which increases real GDP. Similarly, a decline in input costs would cause the aggregate supply curve to shift right, which also increases real GDP.

Choice "a" is incorrect. Both of these events would cause real GDP to decline.

Choice "c" is incorrect. A rise in interest rates would cause real GDP to decline, not increase.

Choice "d" is incorrect. A decline in government spending would cause real GDP to decline, not increase.

QUESTION 2

Which of the following statements describes the same characteristic for both an S corporation and a C corporation?

A. Both corporations can have more than 100 shareholders.

B. Both corporations have the disadvantage of double taxation.

C. Shareholders can contribute property into a corporation without being taxed.

D. Shareholders can be either citizens of the United States or foreign countries.

Correct Answer: C

Choice "c" is correct. Either entity\\'s shareholders may contribute property to the corporations without being taxed and may contribute such property as an exchange for stock as appraised by the directors. Choice "a" is incorrect. An S corporation may not have more than 100 shareholders, although a C corporation may have as many shareholders as desired.

Choice "b" is incorrect. Only the C corporation is subject to the double taxation disadvantage.

Choice "d" is incorrect. Only an S corporation is prohibited from having foreign country shareholders.

QUESTION 3

When applying value chain analysis, a firm asks it accounting department to perform an analysis of the sources of profits and costs of activities that exist within the firm. The firm is performing which form of value chain analysis?

A. Internal differentiation analysis.

B. Internal costs analysis.

C. Vertical linkage analysis.

D. None of the above.

Correct Answer: B

Choice "b" is correct. Internal costs analysis includes analyzing the internal value-creating ability of a firm,

so the sources of profit and costs of the internal activities of the firm must be analyzed.

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

QUESTION 4

A company enters into an agreement with a firm who will factor the company\\'s accounts receivable. The

factor agrees to buy the company\\'s receivables, which average $100,000 per month and have an average collection period of 30 days. The factor will advance up to 80 percent of the face value of receivables at an annual rate of 10 percent and charge a fee of 2 percent on all receivables purchased. The controller of the company estimates that the company would save $18,000 in collection expenses over the year. Fees and interest are not deducted in advance. Assuming a 360-day year, what is the annual cost of financing?

A. 12.0 percent.

B. 14.0 percent.

C. 16.0 percent.

D. 17.5 percent.

Correct Answer: D

Choice "d" is correct. 17.5% annual cost of financing.

	A/R				Cost to Company
Amount of A/R Submitted	\$100,000 ×	2% ×	360/30	=	\$24,000
Amount Not Advanced	(20,000)				
Amount to Calculate Interest Exp	80,000 ×	10%		=	8,000
Cost to Company					32,000
Less Collection Expense Saved					(18,000)
Net Cost					\$14,000

$$\frac{\text{Net cost}}{\text{Amt advance}} = \frac{\$14{,}000}{\$80{,}000} = 17.5\% \text{ Annual cost of financing}$$

QUESTION 5

Carlisle Company presently sells 400,000 bottles of perfume each year. Each bottle costs \$.84 to produce and sells for \$1.00. Fixed costs are \$28,000 per year. The firm has annual interest expense of \$6,000, preferred stock dividends of \$2,000 per year, and a 40 percent tax rate. Carlisle uses the following formulas to determine the company\\'s leverage.

$$\text{Operating leverage} = \frac{Q\,(S-VC)}{Q\,(S-VC)-FC}$$

$$\text{Financial leverage} = \frac{EBIT}{EBIT - I - [P \div (1-t)]}$$

$$\text{Total leverage} = \frac{Q\,(S-VC)}{Q(S-VC)-FC-I-[P \div (1-t)]}$$

Where:

Q	=	Quantity
FC	=	Fixed cost
VC	=	Variable cost
S	=	Selling price
I	=	Interest expense
P	=	Preferred dividends
t	=	Tax rate
EBIT	=	Earnings before interest and taxes

The degree of operating leverage for Carlisle Company is:

A. 2.4

B. 1.78

C. 1.35

D. 2.3

Correct Answer: B

Choice "b" is correct. Calculation of operating leverage is:

$$\text{Operating leverage} = \frac{400{,}000\ (\$1.00 - .84)}{400{,}000\ (\$1.00 - .84) - \$28{,}000}$$

$$= 1.78 \text{ B}$$

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

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