

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

Certified Public Accountant (Business Environment & Concept)

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**QUESTION 1**

The apparent authority of a partner to bind the partnership in dealing with third parties:

- A. Will be effectively limited by a formal resolution of the partners of which third parties are aware.
- B. Will be effectively limited by a formal resolution of the partners of which third parties are unaware.
- C. Would permit a partner to submit a claim against the partnership to arbitration.
- D. Must be derived from the express powers and purposes contained in the partnership agreement.

Correct Answer: A

Choice "a" is correct. This is really an agency question on apparent authority. Apparent authority is authority that a third party reasonably believes an agent has. If the third party is aware of a restriction on the agent's authority, the third party cannot reasonably believe that the agent has the restricted authority. Choice "b" is incorrect. A formal resolution of the partners will not be effective to destroy authority if a third party is aware of the resolution, but not if the third party is unaware of the resolution. Choice "c" is incorrect. Submitting a claim to arbitration is an extraordinary act. A partner has apparent authority only to enter into transactions apparently carrying on in the usual way the business of the partnership. There is no apparent authority to enter into an extraordinary transaction. Choice "d" is incorrect. Apparent authority is derived from what a reasonable person believes concerning the authority of a partner based on the partnership's actions toward the third party; authority derived from the express powers and purposes contained in the partnership agreement is actual authority.

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**QUESTION 2**

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>270,000</u>	<u>540,000</u>	<u>= \$810,000</u>

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

**QUESTION 3**

Karen Parker wants to establish an environmental testing company that would specialize in evaluating the quality of water found in rivers and streams. However, Parker has discovered that she needs either certification or approval from five separate local and state government agencies before she can commence business. Also, the necessary equipment to begin would cost several million dollars. However, Parker believes that if she is able to obtain capital resources, she can gain market share from the two major competitors. The market structure Karen Parker is attempting to enter is best described as:

- A. Pure competition.
- B. A natural monopoly.
- C. An oligopoly.
- D. Monopolistic competition.

Correct Answer: C

Choice "c" is correct. Major competitors and substantial capital requirements (high barriers to entry) are oligopolistic market conditions.

Choice "a" is incorrect. Pure competition has small barriers to entry and numerous suppliers.

Choice "b" is incorrect. A natural monopoly suggests that economic conditions allow only one supplier for efficiency purposes.

Choice "d" is incorrect. Monopolistic competition has easier barriers to entry and more firms competing to supply the market than oligopoly.

**QUESTION 4**

Which of the following activities is considered a support activity?

- A. Delivery of products.

- B. Procurement of materials.
- C. Product advertising.
- D. In-home warranty service.

Correct Answer: B

Choice "b" is correct. Support activities are those activities that are performed by the support staff of an organization (e.g., purchasing of materials and supplies, development of the technology used, management of employees, accounting, finance, strategic planning, etc.).

Choices "a", "c", and "d" are incorrect, as these are all considered primary activities. Primary activities are those that are involved with the direct manufacture of products, the delivery of products through distribution channels, and the support of the product that exists after the sale is made (e.g., handling the raw materials, the manufacturing process, taking orders for the product, advertising the product, and servicing the product after it is sold).

**QUESTION 5**

Formation of which of the following types of business does not require the filing of documents with the state?

<u>Corporation</u>	<u>Limited Partnership</u>	<u>Sole Proprietorship</u>
A. Need not file	Need not file	Need not file
B. Need not file	Must file	Need not file
C. Must file	Must file	Need not file
D. Must file	Need not file	Must file

- A. Option A
- B. Option B
- C. Option C D. Option D

Correct Answer: C

Choice "c" is correct. A sole proprietorship can be formed without filing with the state. Formation of either a corporation or a limited partnership requires a filing.

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

## QUESTION 6

Stagflation refers to:

- A. A combination of rising unemployment and rising real GDP.
- B. A combination of rising unemployment and a rising price level.
- C. High inflation rates.
- D. High unemployment rates.

Correct Answer: B

Choice "b" is correct. Stagflation occurs when the economy suffers a recession that is characterized by falling output, rising unemployment, and a rising price level.

Choice "a" is incorrect. Real GDP is falling during stagflation, not rising.

Choice "c" is incorrect. High inflation rates is just one aspect of stagflation; the other is falling output and rising unemployment. Choice "d" is incorrect. High unemployment rates are just one aspect of stagflation; the other is a rising overall price level (high inflation).

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## QUESTION 7

White, Grey, and Fox formed a limited partnership. White is the general partner and Grey and Fox are the limited partners. Each agreed to contribute \$200,000. Grey and Fox each contributed \$200,000 in cash while White contributed \$150,000 in cash and \$50,000 worth of services already rendered. After two years,

the partnership is insolvent. The fair market value of the assets of the partnership is \$150,000 and the liabilities total \$275,000. The partners have made no withdrawals.

If Fox is insolvent and White and Grey each has a net worth in excess of \$300,000, what is White's maximum potential liability in the event of a dissolution of the partnership?

- A. \$62,500
- B. \$112,500
- C. \$125,000
- D. \$175,000

Correct Answer: C

Rule: The liability of a limited partner for partnership debts is limited to the extent of the capital, which he has contributed or has agreed to contribute. A general partner, however, is liable for all partnership debts and liabilities. Choice "c" is correct. In this case, both Grey and Fox are limited partners and, thus, their respective maximum liability for partnership debts may not exceed their contributions (\$200,000 each). Because White is a general partner, however, he will be personally liable for the excess of any debt remaining after assets have been applied upon a dissolution. Therefore,

White will be liable for \$125,000 (the difference between the fair market value of assets (\$150,000) and partnership liabilities (\$275,000) at dissolution). Choices "a", "b", and "d" are incorrect, per the above rule.

**QUESTION 8**

Which of the following securities are corporate debt securities?

<i>Convertible</i>	<i>Debenture</i>	
<u><i>bonds</i></u>	<u><i>bonds</i></u>	<u><i>Warrants</i></u>
Yes	Yes	Yes
Yes	No	Yes
Yes	Yes	No
No	Yes	Yes

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Correct Answer: C

Choice "c" is correct.

Rules: Bonds are debt securities. Thus, convertible bonds and debenture bonds are debt securities. A

warrant is a contractual right to purchase stock, which constitutes a share of corporate equity.

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

**QUESTION 9**

Commercial paper:

- A. Has a maturity date greater than one year.
- B. Is generally sold only through investment banking dealers.
- C. Generally does not have an active secondary market.
- D. Has an interest rate lower than treasury bills.

Correct Answer: C

Choice "c" is correct. Although commercial paper has a secondary market available, it is generally not an active secondary market. Commercial paper is usually sold to the money markets by highly creditworthy

companies.

Choice "a" is incorrect. The maturity dates are generally less than 270 days.

Choice "b" is incorrect. Commercial paper can be sold to the money markets through a variety of intermediaries including brokers, dealers, investment brokers, etc. It can also be sold direct from one company to another. Choice "d" is incorrect. The interest rate on commercial paper is below the prime rate, but generally above the Treasury bill rate.

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## QUESTION 10

Which one of the following is not a characteristic of a negotiable certificate of deposit? Negotiable certificates of deposit:

- A. Have a secondary market for investors.
- B. Are regulated by the Federal Reserve System.
- C. Are usually sold in denominations of a minimum of \$100,000.
- D. Have yields considerably greater than bankers' acceptances and commercial paper.

Correct Answer: D

Choice "d" is correct. Negotiable CDs generally carry interest rates slightly lower than bankers' acceptances (which are drafts drawn on deposits at a bank) or commercial paper (which is unsecured debt issued by credit worthy customers).

Choice "a" is incorrect. Negotiable CDs have a formal secondary market.

Choice "b" is incorrect. Negotiable CDs are a product of the banking industry, which is regulated by the Federal Reserve Board.

Choice "c" is incorrect. Negotiable CDs are usually sold in denominations of a minimum of \$100,000.

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## QUESTION 11

The basic objective of the residual income approach of performance measurement and evaluation is to have a division maximize its:

- A. Return on investment rate.
- B. Imputed interest rate charge.
- C. Cash flows in excess of a desired minimum amount.
- D. Income in excess of a desired minimum amount.

Correct Answer: D

Choice "d" is correct. Residual income is defined as income in excess of a desired minimum return. Choices "a" and "b" are incorrect, as residual income is not a "rate" of return; it is a dollar amount. Choice "c" is incorrect, as residual income is an accrual method.

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## QUESTION 12

Tim, Peter, and Rick want to form a limited liability company. What document must they file with the state?

- A. Operating Agreement.
- B. Articles of Incorporation.
- C. Bylaws.
- D. Articles of Organization.

Correct Answer: D

Choice "d" is correct. The Articles of Organization must be filed with the secretary of state. Choice "a" is incorrect. An operating agreement is an agreement between the members containing provisions relating to management, profit sharing, transferring interests, etC. and does not need to be filed with the state. Choices "b" and "c" are incorrect. Articles of incorporation and bylaws are documents relating to corporations, and they are not required to be filed with the state.

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## QUESTION 13

Which one of the following management considerations is usually addressed first in strategic planning?

- A. Overall goals of the firm.
- B. Organizational structure.
- C. Recent annual budgets.
- D. Being an industry leader.

Correct Answer: A

Choice "a" is correct. Setting the overall goals of the firm is usually the starting point in strategic planning. Choice "b" is incorrect. The organizational structure will be partially determined by the goals of the firm. Choice "c" is incorrect. Recent annual budgets may be reviewed as an aid in planning, but they are not the first consideration in strategic planning. In fact, they often are ignored. Choice "d" is incorrect. Being an industry leader may be or become a goal of the firm, but that would be determined during the strategic planning process.

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## QUESTION 14

An increase in sales collections resulting from an increased cash discount for prompt payment would be expected to cause a (n):

- A. Increase in the operating cycle.
- B. Increase in the average collection period.
- C. Decrease in the cash conversion cycle.
- D. Increase in bad debt losses.

Correct Answer: C

Choice "c" is correct. An increase in sales collections would decrease the cash conversion cycle.

Choice "a" is incorrect because the operating cycle (as well as the cash conversion cycle) would decrease.

Choice "b" is incorrect, as the average collection period would decrease.

Choice "d" is incorrect. Bad debt losses would decrease from an increase in sales collections.

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## QUESTION 15

The trough of a business cycle is generally characterized by:

- A. Shortages of essential raw materials and rising costs.
- B. Increasing purchasing power and increasing capital investments.
- C. Unused productive capacity and an unwillingness to risk investments.
- D. Declining purchasing power and unused productive capacity.

Correct Answer: C

Choice "c" is correct. The trough of a business cycle is an economic low point with no positive indicators for the future. It is characterized by unused productive capacity and an unwillingness to risk new investments.

Choice "a" is incorrect. Shortages may occur during a peak.

Choice "b" is incorrect. Increasing purchasing power and increasing capital investments come with recovery.

Choice "d" is incorrect. Declining purchasing power comes with inflation; unlikely in a trough.

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