



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

Certified Public Accountant (Business Environment & Concept)

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### QUESTION 1

A depreciation tax shield is:

- A. An after-tax cash outflow.
- B. A reduction in income taxes.
- C. The expense caused by depreciation.
- D. Caused by the fact that depreciation does not affect cash flow.

Correct Answer: B

Choice "b" is correct. Whenever depreciation protects income from taxation, it is known as a depreciation tax shield.

Choice "a" is incorrect. A depreciation tax shield may result in after-tax cash inflow, but not outflow.

Choice "c" is incorrect, per above.

Choice "d" is incorrect. A depreciation tax shield is caused by the tax deductibility of the depreciation expense, not by the fact that depreciation does not affect cash flow.

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### QUESTION 2

For what purpose will a stockholder of a publicly held corporation be permitted to file a stockholders' derivative suit in the name of the corporation?

- A. To compel payment of a properly declared dividend.
- B. To enforce a right to inspect corporate records.
- C. To compel dissolution of the corporation.
- D. To recover damages from corporate management for an ultra vires management act.

Correct Answer: D

Choice "d" is correct. A derivative action is an action by a stockholder in the name of the corporation to recover damages or to seek some other remedy on behalf of the corporation when the corporation does not enforce its own rights. Such actions are often brought when the directors or officers have breached their duty to the corporation and have refused to sue themselves. An ultra vires act is an act outside of a director's or an officer's scope of authority and thus is a breach of duty to the corporation. Choices "a", "b", and "c" are incorrect, because these would all be causes of action against the corporate directors or officers on behalf of the stockholder to recover damages or seek some other remedy against the corporate directors or officers on behalf of the stockholder, not on behalf of the corporation.

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### QUESTION 3





Choice "c" is correct. Choice "c" contains both demand-pull inflation (when the aggregate demand curve shifts right) and cost-push inflation (when the aggregate supply curve shifts left). An increase in aggregate demand causes output to rise and the price level to rise. A decrease in aggregate supply causes output to fall and the price level to rise. Thus, an increase in aggregate demand and a decrease in aggregate supply is the most inflationary.

Choice "a" is incorrect. If aggregate supply increases, the price level will fall (reducing inflation).

Choice "b" is incorrect. If aggregate demand decreases, the price level will fall (reducing inflation).

Choice "d" is incorrect per above Explanation.

#### QUESTION 5

A vendor offered Wyatt Co. \$25,000 compensation for losses resulting from faulty raw materials. Alternately, a lawyer offered to represent Wyatt in a lawsuit against the vendor for a \$12,000 retainer and 50% of any award over \$35,000. Possible court awards with their associated probabilities are:

<u>Award</u>	<u>Probability</u>
\$75,000	0.6
0	0.4

Compared to accepting the vendor's offer, the expected value for Wyatt to litigate the matter to verdict provides a:

- A. \$4,000 loss.
- B. \$18,200 gain.
- C. \$21,000 gain.
- D. \$38,000 gain.

Correct Answer: A

Choice "a" is correct.



**Step 1:**

Cost of award if Wyatt wins:

Retainer	12,000
Add: $(\$75,000 - \$35,000) \times 50\%$	<u>20,000</u>
	<u>32,000</u>

Cost if Wyatt loses retainer \$12,000.

**Step 2:**

<u>Award</u>	<u>Cost</u>	<u>Net to Wyatt</u>	<u>Probability</u>	<u>Expected</u>
75,000	– 32,000	= 43,000	× .60	= 25,800
0	– (12,000)	= (12,000)	× .40	= <u>(4,800)</u>
				<u>21,000</u>

**Step 3:**

Expected value of litigation	21,000
Less: Settlement offer	<u>(25,000)</u>
Loss from choosing to litigate	<u>(4,000)</u>

Choices "b", "c", and "d" are incorrect based on the above Explanation.

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