



BUSINESS-ENVIRONMENT-AND- CONCEPTS^{Q&As}

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

If a firm increases its cash balance by issuing additional shares of common stock, working capital:

- A. Remains unchanged and the current ratio remains unchanged.
- B. Increases and the current ratio remains unchanged.
- C. Increases and the current ratio decreases.
- D. Increases and the current ratio increases.

Correct Answer: D

Choice "d" is correct. If a firm increases its cash balance by issuing additional shares of common stock, working capital increases and the current ratio increases.

Illustration	Before		Stock Sale		After
Current Assets	300	+	100	=	400
Current Liabilities	<u>100</u>				<u>100</u>
Working Capital	<u>200</u>	+	<u>100</u>	=	<u>300</u>
Current Ratio	3 To 1				4 To 1
Equity	<u>100</u>	+	<u>100</u>	=	<u>200</u>

QUESTION 2

If demand is price inelastic:

- A. An increase in price will result in a decrease in total revenue.
- B. An increase in price will result in an increase the quantity demanded that is more than the increase in price.
- C. An increase in price will result in an increase in total revenue.
- D. An increase in price will have no effect on total revenue.

Correct Answer: C

Choice "c" is correct. If demand is price inelastic, an increase in price will result in an increase in total revenue (positive relationship). Choice "b" is incorrect. When demand is price inelastic, an increase in price results in a decrease in quantity demanded that is proportionately smaller than the increase in price,



thus having the result of an increase in total revenue (price multiplied by quantity).

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

QUESTION 3

Management accountants are frequently asked to analyze various decision situations including the following.

- I. The cost of a special device that is necessary if a special order is accepted.
- II. The cost proposed annually for the plant service for the grounds at corporate headquarters.
- III. Joint production costs incurred, to be considered in a sell-at-split versus a process-further decision.
- IV.

The costs associated with alternative uses of plant space, to be considered in a make/buy decision.

- V.
- The cost of obsolete inventory acquired several years ago, to be considered in a keep-versus disposal decision.

The cost described in situation II above is a:

- A. Prime cost.
- B. Sunk cost.
- C. Discretionary cost.
- D. Relevant cost.

Correct Answer: C

Choice "c" is correct. Discretionary cost. The proposed cost for plant service for the grounds at corporate headquarters is an example of an avoidable cost that is discretionary.

Choice "a" is incorrect. Prime costs are direct materials and direct labor.

Choice "b" is incorrect. Sunk costs are costs previously incurred and not relevant.

Choice "d" is incorrect. Relevant costs are expected future costs that vary with the action taken.

QUESTION 4

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 5

Unless otherwise provided in a general partnership agreement, which of the following statements is correct when a partner dies?

	<i>The deceased partner's executor would automatically become a <u>partner</u></i>	<i>The deceased partner's estate would be free from any partnership <u>liabilities</u></i>	<i>The partnership would be <u>dissolved automatically</u></i>
A.	Yes	Yes	Yes
B.	Yes	No	No
C.	No	Yes	No
D.	No	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. "No - No - No." Upon the death of a general partner: Rule: A partner's death is an event of dissociation. Where a partner dissociates, the partner's right to participate in the management ceases; the partner's executor does not take the partner's place. Rule: The partner's estate remains liable for the partner's obligations to the partnership and has a right to the deceased partner's share of distributions. Rule: Under the Revised Uniform Partnership Act, a partnership does not automatically dissolve on the death of a partner; rather it will dissolve only if 90 days pass and the remaining partners do not wish to continue the partnership. Choices "a", "b", and "c" are incorrect, per the above rules.



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