



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

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

Eugene Entrepreneur developed his waste collections and disposal business from one truck 20 years ago to a fleet of 2,000 trucks serving an entire region today. Gene is looking to retire and knows that he cannot find a suitable buyer for the entire business. Gene has developed a series of short range plans with his senior management group that include generous bonuses, funded in part by deferred repair and maintenance expenses and prior earnings, sales of business segments where possible or transfers of assets to the counties and municipalities that had engaged the waste collection and disposal service. Gene has frozen all new capital investment. The mission that Eugene Entrepreneur has mapped out for his company can best be described as:

- A. Build.
- B. Hold.
- C. Harvest.
- D. Sunset.

Correct Answer: C

Choice "c" is correct. Eugene Entrepreneur has mapped out a harvest mission for his company. As Gene retires and pulls assets and value from the company, he is clearly taking a short-term view toward reaping immediate benefit. Choice "a" is incorrect. A "build" mission anticipates that the business is positioned to expand markets or market share and is characterized by a long-term view that promotes investment. Choice "b" is incorrect. A "hold" mission contemplates that the business is trying to hold on to current market share and is characterized by appropriate investment and competitive positioning. Choice "d" is incorrect. The term "sunset" mission is a distracter.

QUESTION 2

Which of the following is not consistent with full employment?

- A. An unemployment rate greater than zero.
- B. Structural unemployment.
- C. Cyclical unemployment.
- D. Frictional unemployment.

Correct Answer: C

Choice "c" is correct. When the economy is operating at full employment, there is no cyclical unemployment. When the economy is operating at full employment, there is still some unemployment known as the natural rate of unemployment, which does not include cyclical unemployment.

Choice "a" is incorrect. There is still some unemployment (frictional, structural, and seasonal) when the economy is operating at full employment.

Choice "b" is incorrect, per the above Explanation.



Choice "d" is incorrect, per the above Explanation.

QUESTION 3

The following information applies to Brandon Company.

	<u>Purchases</u>	<u>Sales</u>
January	\$160,000	\$100,000
February	160,000	200,000
March	160,000	240,000
April	140,000	300,000
May	140,000	260,000
June	120,000	240,000

Forty percent of purchases are paid for in cash at the time of purchase, and 30 percent is paid for in each of the next two months. Purchases for the previous November and December were \$150,000 per month. Payroll is 10 percent of sales in the month it occurs, and operating expenses are 20 percent of the following months sales (July sales were \$220,000). Interest payments were \$20,000 paid quarterly in January and April. Brandon's cash disbursements for the month of April were:

- A. \$152,000
- B. \$200,000
- C. \$248,000
- D. \$254,000

Correct Answer: D

Choice "d" is correct. Cash disbursements in April would include paying for purchases made in February and March. It would also include payroll expense and operating expenses. The calculation would be:



Purchases:

February $160,000 \times 30\% = \$ 48,000$

March $160,000 \times 30\% = \$ 48,000$

April $140,000 \times 40\% = \$ 56,000$

Payroll:

April Sales = $300,000 \times 10\% = \$ 30,000$

Operating Expenses:

May Sales = $260,000 \times 20\% = \$ 52,000$

Interest Expenses \$ 20,000

April Cash Disbursements \$254,000

Choices "a", "b", and "c" are incorrect, per above calculations.

QUESTION 4

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 large capital outlay necessary for the equipment is an example of a(n):

- A. Entry barrier.
- B. Minimum efficiency scale.
- C. Created barrier.
- D. External cost.

Correct Answer: A

Choice "a" is correct. Large capital (money) requirements are the basic example of barriers to entry. A barrier to entry effectively prevents firms from entering the market to compete against existing firms.

Choice "b" is incorrect. Minimum efficient scale is the output level at which long run average costs are minimized. Here, Parker has not even been able to enter the industry.

Choice "c" is incorrect. A created barrier is made by firms already in the industry. Here, Parker's barrier was not created.

Choice "d" is incorrect. An external cost is a cost that the company does not account for, but passes on to the detriment of society.



QUESTION 5

Unless prohibited by the organization documents, a stockholder in a publicly held corporation and the owner of a limited partnership interest both have the right to:

- A. Ownership of the business's assets.
- B. Control management of the business.
- C. Assign their interest in the business.
- D. An investment that has perpetual life.

Correct Answer: C

Choice "c" is correct. Both a shareholder in a publicly held corporation and the owner of a limited partnership interest have a right to assign (sell) their interest. While a shareholder is free to assign his whole ownership interest, a limited partner's assignable interest is limited to the limited partner's interest in profits and losses. Choice "a" is incorrect. Neither the stockholder of a publicly held corporation nor the owner of a limited partnership interest (or indeed, even a general partnership interest) has an ownership interest in any item of the business's assets--the assets belong to the business and not to the owners of the business. Choice "b" is incorrect. Stockholders and limited partners generally do not have the right to participate in the management of the business. Choice "d" is incorrect. A limited partnership interest dissolves upon death of the limited partner and so is not a perpetual investment.

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