



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

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

If the demand for a normal good is inelastic, then the sales price of the product would increase following a (n):

- A. Decrease in the price of a substitute good.
- B. Increase in the supply of the product.
- C. Decrease in the supply of the product.
- D. Increase in the number of suppliers of the product.

Correct Answer: C

Choice "c" is correct. If demand is perfectly inelastic (or not price sensitive), there will be no change in quantity demanded for a change in price. This means that consumers of the product will demand a constant quantity, regardless of the price. If the quantity supplied is reduced (presumably below an equilibrium point where supply equals demand), there will be excess demand for the product and sales price will go up. The increase in sales price will have no impact on demand (because demand is assumed to be perfectly price inelastic). Choices "a", "b", and "d" are incorrect, per the above Explanation.

QUESTION 2

During 1994, Deet Corp. experienced the following power outages:

| <i>Number of outages per month</i> | <i>Number of months</i> |
|----------------------------------------|-----------------------------|
| 0 | 3 |
| 1 | 2 |
| 2 | 4 |
| 3 | 3 |
| | <u>12</u> |

Each power outage results in out-of-pocket costs of \$400. For \$500 per month, Deet can lease an auxiliary generator to provide power during outages. If Deet leases an auxiliary generator in 1995, the estimated savings (or additional expenditures) for 1995 would be:

- A. (\$3,600)
- B. (\$1,200)
- C. \$1,600
- D. \$1,900

Correct Answer: C

Choice "c" is correct.



Savings:

| | | |
|-----------------|---|----------|
| 1 outage × 2 mo | = | 2 |
| 2 outage × 4 mo | = | 8 |
| 3 outage × 3 mo | = | <u>9</u> |
| | | 19 |

| | |
|--------------------------------|----------------|
| Out-of-pocket cost | × 400 |
| Cost to be saved | <u>\$7,600</u> |
| Cost of generator (\$500 × 12) | <u>(6,000)</u> |
| Estimated net savings | <u>\$1,600</u> |

Choice "a" is incorrect. The estimated savings is dependent on the number of outages and on the number of months, since there are two costs involved. Choice "b" is incorrect. The estimated savings is not the difference between the out-of-pocket costs and cost of generator, times 12 months. Choice "d" is incorrect. The cost of the generator is a monthly cost, not dependent on the number of power outages.

QUESTION 3

Noll Corp. and Orr Corp. are contemplating entering into an unincorporated joint venture. Such a joint venture:

- A. Will be treated as a partnership in most important legal respects.
- B. Must be dissolved upon the completion of a single undertaking.
- C. Will be treated as an association for federal income tax purposes and taxed at the prevailing corporate rates.
- D. Must file a certificate of limited partnership with the appropriate state agency.

Correct Answer: A

Choice "a" is correct. The legal requirements, the consequences, the advantages, and disadvantages of forming a joint venture generally are identical to those of a general partnership. Joint ventures are treated as a partnership in most important legal aspects.

Choice "b" is incorrect. A joint venture need not be dissolved upon the completion of a single undertaking.

Joint ventures may be formed for a single transaction or for a related series of transactions.

Choice "c" is incorrect because a joint venture would be taxed like a partnership, not a corporation.

Choice "d" is incorrect because a joint venture, like a partnership, may be formed without filing with the state.

QUESTION 4



All of the following are characteristics of the strategic planning process, except the:

- A. Emphasis on both the short and long run.
- B. Review of the attributes and behavior of the organization's competition.
- C. Analysis and review of departmental budgets.
- D. Analysis of consumer demand.

Correct Answer: C

Choice "c" is correct. Analysis and review of departmental budgets is not a part of the strategic planning process. Budgets are operational and much more specific than the things that are part of strategic planning.

Choices "a", "b", and "d" are incorrect. All of these are part of the strategic planning process:

- A. Emphasis on both the short and long run.
- B. A review of competition.
- D. Analysis of consumer demand.

QUESTION 5

Heather, Erika, and Shelby are members in HES LLC. Heather works 40 hours per week and Erika and Shelby work 20 hours per week. Heather contributed \$30,000 to the LLC and Erika and Shelby contributed \$60,000 each. Erika and Shelby have each originated 45% of the LLC's business and Heather has originated the other 10%. Absent an agreement to the contrary among the owners, who controls the management of the HES LLC?

- A. Heather, because she works the most.
- B. Erika and Shelby equally because they contributed the most.
- C. Heather, Erika, and Shelby in proportion to their ownership interests.
- D. Erika and Shelby, because they originate most of the work.

Correct Answer: C

Choice "c" is correct.

Rule: Absent an agreement to the contrary, the members' voting strength is proportionate to their contributions.

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



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