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QUESTION 1

What term is used to describe a partnership without a specified duration?

- A. A perpetual partnership.
- B. A partnership by estoppel.
- C. An indefinite partnership.
- D. A partnership at will.

Correct Answer: D

Choice "d" is correct. A partnership at will is a partnership with no definite term (i.e., without specified duration). Such a partnership can be terminated at any time. Choice "a" is incorrect. A partnership without a specified duration is called a partnership at will, not a perpetual partnership. There is no such thing as a perpetual partnership because a partnership is not perpetual. A partnership may be dissolved after a partner dies or otherwise dissociates from the partnership. Choice "b" is incorrect. A partnership by estoppel is the appearance of a partnership when there is no formal partnership. If parties who are not partners give the appearance to third parties that they are partners, the law may deem the parties to be a partnership by estoppel. The parties will be treated as partners, even though they are not. Choice "c" is incorrect. The legal term for a partnership of indefinite duration is a partnership at will, not an indefinite partnership.

QUESTION 2

Which of the following statements is correct if there is an increase in the resources available within an economy?

- A. More goods and services will be produced in the economy.
- B. The economy will be capable of producing more goods and services.
- C. The standard of living in the economy will rise.
- D. The technological efficiency of the economy will improve.

Correct Answer: B

Choice "b" is correct. If there is an increase in the resources available in an economy, the economy will be capable of producing more goods and services. This increase is really an increase in the long-run aggregate supply (potential GDP). On the aggregate supply and demand chart, the long-run aggregate supply line (LRAS) is the vertical line that represents the potential or equilibrium level of output. If that line shifts to the right, then the economy is capable of expanding, but it will not automatically expand just because the line shifts to the right. Choice "a" is incorrect. Just because there is an increase in the resources available in an economy, it does not mean that more goods and services will automatically be produced. There would have to be increased demand (a shift upward in the aggregate demand line) for more goods and services to actually be produced. Choice "c" is incorrect. If there is an increase in the resources available in an economy, the standard of living in the economy will not necessarily rise. It could rise, but it will not necessarily do that. Choice "d" is incorrect. If there is an increase in the resources available in an economy, the technological efficiency of the economy will not automatically improve. This statement is backwards. An increase in technological efficiency of an economy will normally increase the resources available in the economy by increasing productivity.



QUESTION 3

Which of the following formulas should be used to calculate the economic rate of return on common stock?

- A. (Dividends + change in price) divided by beginning price.
- B. (Net income - preferred dividend) divided by common shares outstanding.
- C. Market price per share divided by earnings per share.
- D. Dividends per share divided by market price per share.

Correct Answer: A

Choice "a" is correct. The economic rate of return on common stock measures the dividend income and capital growth in relation to the initial investment, the beginning price of the stock. Choice "b" is incorrect. The proposed solution is earnings per share, a ratio generally computed as the earnings available to common shareholders (net income after payment of preferred shares) divided by the common shares outstanding. Choice "c" is incorrect. Market price per share divided by earnings per share is the price/ earnings or P/E ratio, not the economic rate of return on common stock. Choice "d" is incorrect. The dividends per share divided by the market price per share does not represent the economic rate of return on common stock, the ratio includes change in stock value in the denominator rather than the numerator of the equation.

QUESTION 4

When a partner in a general partnership lacks actual or apparent authority to contract on behalf of the partnership, and the party contracted with is aware of this fact, the partnership will be bound by the contract if the other partners:

	<u>Ratify the contract</u>	<u>Amend the partnership agreement</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

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

Correct Answer: B

Choice "b" is correct. "Yes - No." Rule: The authority of partners is governed by agency law. Under agency law, a principal is not bound to the third party unless the agent had actual authority or apparent authority. When the agent has no actual authority and no apparent authority, the principal (in this case the partnership) will only be liable if it chooses to adopt the agreement (i.e., ratify). Rule: Amending the partnership agreement (presumably to grant authority) will not



cause the partnership to be bound because authority must exist at the time the contract is made or the partnership must ratify the contract. Choices "a", "c", and "d" are incorrect, per the above rules.

QUESTION 5

If a product's demand is elastic and there is a decrease in price, the effect will be:

- A. A decrease in total revenue.
- B. No change in total revenue.
- C. A decrease in total revenue and the demand curve shifts to the left.
- D. An increase in total revenue.

Correct Answer: D

Choice "d" is correct. If demand is relatively elastic, then the reduction in price will, by definition, produce a proportionately greater increase in quantity demanded. Hence, total revenue will increase.

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

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