



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

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

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, how will the LLC's \$120,000 profits be divided among the members?

	<u>Heather</u>	<u>Erika</u>	<u>Shelby</u>
A.	\$60,000	\$30,000	\$30,000
B.	\$40,000	\$40,000	\$40,000
C.	\$12,000	\$54,000	\$54,000
D.	\$24,000	\$48,000	\$48,000

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

Correct Answer: D

Rule: Absent an agreement to the contrary, the LLC's profits will be divided among the members in proportion to their contributions. Here, Heather's, Erika's and Shelby's contributions were \$30,000, \$60,000, and \$60,000, respectively. Thus, the profits will be divided in a 1:2:2 ratio (20% of \$120,000 to Heather; 40% of \$120,000 to Erika; and \$120,000 to Shelby).

Choice "d" is correct.

Heather Erika Shelby

D. \$24,000 \$48,000 \$48,000

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

QUESTION 2

A partnership agreement must be in writing if:

- A. Any partner contributes more than \$500 in capital.
- B. The partners reside in different states.
- C. The partnership intends to own real estate.



D. The partnership's purpose cannot be completed within one year of formation.

Correct Answer: D

Choice "d" is correct. Under the statute of frauds, a partnership agreement must be in writing if by its terms the agreement cannot be completed within one year. Choice "a" is incorrect. No such rule. Although the statute of frauds requires a contract for the sale of goods for \$500 or more to be evidenced by a writing, a writing is not required to contribute more than \$500 in capital to a partnership.

Choice "b" is incorrect. No such rule, a far out distracter.

Choice "c" is incorrect. While a contract to buy or sell real estate will require a writing, a partnership agreement to own/buy real estate need not be in writing.

QUESTION 3

Fil and Breed are 50% partners in FandB Cars, a used-car dealership. FandB maintains an average used-car inventory worth \$150,000. On January 5, National Bank obtained a \$30,000 judgement against Fil and Fil's child on a loan that Fil had cosigned and on which Fil's child had defaulted. National sued FandB to be allowed to attach \$30,000 worth of cars as part of Fil's interest in FandB's inventory. Will National prevail in its suit?

- A. No, because the judgement was not against the partnership.
- B. No, because attachment of the cars would dissolve the partnership by operation of law.
- C. Yes, because National had a valid judgement against Fil.
- D. Yes, because Fil's interest in the partnership inventory is an asset owned by Fil.

Correct Answer: A

Choice "a" is correct. A partner has no right to possess partnership property except for partnership purposes. Thus, a personal creditor of a partner has no right to attach items of partnership property to satisfy a partner's personal debt. Choice "b" is incorrect. There is no such rule. If the partnership were liable for the individual partner's debt, the cars could be attached and the partnership would not be dissolved. Choice "c" is incorrect. A partner has no right to possess partnership property except for partnership purposes. Thus, a personal creditor of a partner has no right to attach items of partnership property to satisfy a partner's personal debt. Choice "d" is incorrect. A partner has no right to possess partnership property except for partnership purposes. Thus, a personal creditor of a partner has no right to attach items of partnership property to satisfy a partner's personal debt.

QUESTION 4

The limited liability of the shareholders of a closely-held corporation will most likely be disregarded if the shareholders:

- A. Lend money to the corporation.
- B. Are also corporate officers, directors, or employees.
- C. Undercapitalized the corporation when it was formed.
- D. Formed the corporation solely to limit their personal liability.



Correct Answer: C

Choice "c" is correct. The "corporate veil" can be pierced in situations in which the corporation was undercapitalized at formation, where it is the alter ego of the shareholders, or when it used to perpetrate a fraud. Choice "a" is incorrect. Shareholders may lend money to their corporation. This does not make such shareholders personally liable for the corporation's debt. Choice "b" is incorrect. Officers, directors, and employees are not personally liable for the corporation's debt, and there is no reason to change this role merely because such persons also own shares. Choice "d" is incorrect. The desire to limit liability is a valid reason to adopt the corporate form and will not, by itself, allow the "corporate veil" to be pierced.

QUESTION 5

Which of the following statements is correct with respect to a limited partnership?

- A. A limited partner may not be an unsecured creditor of the limited partnership.
- B. A general partner may not also be a limited partner at the same time.
- C. A general partner may be a secured creditor of the limited partnership.
- D. A limited partnership can be formed with limited liability for all partners.

Correct Answer: C

Choice "c" is correct. In a limited partnership, a general partner may be a secured creditor of the limited partnership.

Choice "a" is incorrect. In a limited partnership, a limited partner may be an unsecured creditor of the limited partnership.

Choice "b" is incorrect. In a limited partnership, a general partner may also be a limited partner at the same time.

Choice "d" is incorrect. In a limited partnership, only the limited partners will have limited liability. A limited partnership must have at least one general partner and general partners have unlimited liability.

(The word "all" makes this option wrong.)

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