Vendor: Test Prep

Exam Code: BUSINESS-ENVIRONMENT-AND-CONCEPTS

Exam Name: Certified Public Accountant (Business Environment & Concept)

Version: Demo

QUESTION 1

The CPI jumps from 131 in year 1 to 136.5 in year 2. What is annual inflation rate?

A. 4.2%

B. 3%

C. 1.38%

D. 13.8%

Correct Answer: A

Choice "a" is correct. The inflation rate is measured as:

$$\text{Inflation Rate} = \frac{CPI_{\text{this period}} - CPI_{\text{last period}}}{CPI_{\text{last period}}} \times 100$$

$$\text{Inflation Rate} = \frac{136.5 - 131}{131} \times 100 \approx 4.2\%$$

QUESTION 2

Locke and Vorst were general partners in a kitchen equipment business. On behalf of the partnership, Locke contracted to purchase 15 stoves from Gage. Unknown to Gage, Locke was not authorized by the partnership agreement to make such contracts. Vorst refused to allow the partnership to accept delivery of the stoves and Gage sought to enforce the contract. Gage will:

A. Lose, because Locke\\'s action was not authorized by the partnership agreement.

B. Lose, because Locke was not an agent of the partnership.

C. Win, because Locke had express authority to bind the partnership.

D. Win, because Locke had apparent authority to bind the partnership.

Correct Answer: D

Choice "d" is correct. Every partner is an agent of the partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership. It would be usual for a partner in a kitchen equipment business to have authority to purchase stoves. Thus, Gage will win because of Locke\\'s apparent authority. Choice "a" is incorrect. Every partner is an agent for his partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership. Choice "b" is incorrect. Every partner is an agent of the partnership. Choice "c" is incorrect. Locke did not have express authority to purchase the stoves. The facts state that Locke was not authorized to purchase the stoves and thus lacked express authority.

QUESTION 3

Andrew Corporation is evaluating a capital investment that would result in a $30,000 higher contribution margin benefit and increased annual personnel costs of $20,000. The effects of income taxes on the net present value computation on these benefits and costs for the project are to:

A. Decrease both benefits and costs.

B. Decrease benefits but increase costs.

C. Increase benefits but decrease costs.

D. Increase both benefits and costs.

Correct Answer: A

Choice "a" is correct. The effects of income taxes on the net present value computations will decrease both

benefits and costs for the project. Net present value computations focus of the present value of cash flows.

Income taxes decrease both the benefit and the cost of cash flows.

Choices "b", "c", and "d" are incorrect, per the above Explanation.

QUESTION 4

A project has an initial outlay of $1,000. The projected cash inflows are:

Year 1	$200
Year 2	200
Year 3	400
Year 4	400

What is the investment\\'s payback period?

A. 4.0 years.

B. 3.5 years.

C. 3.4 years.

D. 3.0 years.

Correct Answer: B

Choice "b" is correct. The payback period is computed as the number of years required to fully recover the original investment with out respect to the time value of money. With uneven cash flows, the payback period is computed by development of a cumulative payback balance converted to years as follows:

	Cash Inflow		Years Required		Adjusted Cash Inflow	Cumulative Cash Inflow
Year 1	$200	x	1.0	=	$200	$ 200
Year 2	$200	x	1.0	=	$200	$ 400
Year 3	$400	x	1.0	=	$400	$ 800
Year 4	$400	x	0.5	=	$200	$1,000
Payback period			3.5			

Choice "a" is incorrect. Although the payback occurs in the fourth year, only half the year is required. The payback period is 3.5, not 4.0 years. Choice "c" is incorrect. Although the payback occurs in the fourth year, half the year is required. The payback period is 3.5, not 3.4 years. Choice "d" is incorrect. The payback occurs in the fourth year. The payback period is 3.5, not 3.0 years. Strategies for Short-term and Long-term Financing

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QUESTION 5

Universal Industries limits its operations to exports to foreign countries. What can be said about Universal\\'s exposures to exchange rate risk?

A. Universal is subject to potential transaction, economic and translation exposures to exchange rate risk.

B. Universal is subject to potential transaction and economic exposures to exchange rate risk.

C. Universal is subject to economic and translation exposures to exchange rate risk.

D. Universal is subject transaction and translation exposures to exchange rate risk.

Correct Answer: B

Choice "b" is correct. Universal is subject to transaction risks associated with settlement of export transactions and is subject to economic risks associated with the satisfaction of domestic expenses denominated in domestic currencies with imported revenues denominated in a foreign currency. No translation exposure exists since there is no foreign investment or subsidiary. Choices "a", "c", and "d" are incorrect, per the above Explanation.

QUESTION 6

The principle measure of non-diversifiable risk included in the CAPM formula is the beta coefficient. The beta coefficient measures the volatility or risk inherent in an investment by:

A. Computing the ratio of changes in earnings per share to changes in sales.

B. Computing the ratio of stock price to earnings per share.

C. Computing the ratio of percentage changes in a stock\\'s price to percentage changes in overall market values during the same period.

D. Computing the ratio of percentage changes in the expected value of alpha equivalents to derivative fluctuations.

Correct Answer: C

Choice "c" is correct. The beta coefficient represents the measure of a particular stock\\'s percentage

change compared to the percentage change in the market over the same period. The equation for the beta

coefficient is as follows:

% in Stock Price

% in Market price

Choice "a" is incorrect. The percentage change in earnings per share related to a percentage change in

sales represents the degree of combined leverage.

Choice "b" is incorrect. The ratio of stock price to earnings per share is the price earnings ratio.

Choice "d" is incorrect. Choice "d" represents a word salad distracter of nonsense terms.

QUESTION 7

Lisa is a limited partner in a limited partnership. Jen, one of the other limited partners, is seeking to sell her interest in the partnership to Karen and allow Karen to become a new limited partner. Which of the following statements is true?

A. Lisa may engage in the management of the limited partnership without losing her limited liability.

B. Jen may transfer her interest and make Karen a new limited partner without the approval of the other partners.

C. Jen may withdraw from the limited partnership without giving notice to the partnership.

D. Lisa has a right to vote on the transferring of interest to and admission of Karen as a limited partner.

Correct Answer: D

Choice "d" is correct. Limited partners have the right to vote on the transfer of interest and admission of a new partner. Admission of a new partner requires unanimous consent. Choice "a" is incorrect. A limited partner who acts as a general partner loses her limited liability status to those she acted as a general partner towards. Choice "b" is incorrect. Partners can freely transfer their interests in profits and losses to third parties, but the third party cannot become a limited partner without the unanimous consent of the other partners. Choice "c" is incorrect. Limited partners must give 6 months notice of withdrawal in absence of an agreement to the contrary.

QUESTION 8

Under the Uniform Partnership Act, which of the following statements is(are) correct regarding the effect of the assignment of an interest in a general partnership?

I. The assignee is personally responsible for the assigning partner\\'s share of past and future partnership debts.

II.

The assignee is entitled to the assigning partner\\'s interest in partnership profits and surplus on dissolution of the partnership.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: B

Choice "b" is correct. A partner may assign his or her interest in the partnership. The effect of such an assignment is to transfer the partner\\'s right to receive the partner\\'s share of profits or surplus only. Such an assignment does not cause dissolution or make the assignee a new partner. The assignor is still regarded as a partner and is liable for past and future partnership debts. The assignee, since he is not a partner, is not liable for past and future partnership debts. Choice "a" is incorrect. The assignee of an interest in a general partnership is not personally responsible for the assigning partner\\'s share of past and future partnership debts but is entitled to the assigning partner\\'s interest in partnership profits and surplus on dissolution of the partnership. Choice "c" is incorrect. The assignee of an interest in a general partnership is entitled to the assigning partner\\'s interest in partnership profits and surplus on dissolution of the partnership but is not personally responsible for the assigning partner\\'s share of past and future partnership debts. Choice "d" is incorrect. The assignee of an interest in a general partnership is entitled to the assigning partner\\'s interest in partnership profits and surplus on dissolution of the partnership but is not personally responsible for the assigning partner\\'s share of past and future partnership debts.

QUESTION 9

When does competition not become an even stronger force impacting the profitability of a firm?

A. The market consists of several equal-sized firms.

B. Customers do not have strong brand preferences.

C. The market is fast-growing.

D. The costs of exiting the market exceed the costs of continuing to operate.

Correct Answer: C

Choice "c" is correct, as it is not a factor that would cause market competitiveness to be even stronger.

Choices "a", "b", and "d" are incorrect because they are all reasons that competition becomes an even

stronger force that impacts the firm\\'s profitability. The following are situations that would cause competition

to be an even stronger force impacting the profitability of a firm:

?The market is not growing fast.

?There are several equal-sized firms in the market.

?Customers do not have strong brand preferences.

?The costs of exiting the market exceed the costs of continuing to operate.

?Some firms profit from making certain moves to increase market share.

?The various firms in the market use different types of strategic plans.

QUESTION 10

A limited liability partnership must:

A. File registration documents with the state in which it is formed.

B. Hold all partners personally liable for all debts and liabilities of the partnership and partners.

C. Carry no less than one hundred thousand dollars of property insurance.

D. Not have partners with professional licenses.

Correct Answer: A

Choice "a" is correct. Rule: To have limited liability, an LLP must file with the state a registration statement usually referred to as Articles of LLP. It is generally designed for professionals who desire to be partners with other like professionals and yet not have liability for the malpractice of their partners. Some states require that personal liability insurance (not property insurance) be carried to protect those harmed by the professionals\\' malpractice. Choices "b", "c", and "d" are incorrect, per the above rule.

QUESTION 11

Which of the following statements is true regarding the payback method?

A. It does not consider the time value of money.

B. It is the time required to recover the investment and earn a profit.

C. It is a measure of how profitable one investment project is compared to another.

D. The salvage value of old equipment is ignored in the event of equipment replacement.

Correct Answer: A

Choice "a" is correct. The payback method determines the number of years that it will take for a company to recoup or be paid back for its investment. The payback method does not consider the time value of money. Choice "b" is incorrect. The payback method determines the number of years that it will take for a company to recoup or be paid back for its investment. Although the payback method focuses on liquidity and measures risk, project cash flows after the initial investment are not considered; thus, profitability is ignored. Choice "c" is incorrect. The payback method determines the number of years that it will take for a company to recoup or be paid back for its investment. Although the payback method focuses on liquidity and measures risk, project cash flows after the initial investment are not considered; thus, profitability is ignored. Choice "d" is incorrect. Salvage value is specifically considered as part of payback computations because it contributes to the incoming cash flow when the asset is sold.

QUESTION 12

What is the primary disadvantage of using return on investment (ROI) rather than residual income (RI) to evaluate the performance of investment center managers?

A. ROI is a percentage, while RI is a dollar amount.

B. ROI may lead to rejecting projects that yield positive cash flows.

C. ROI does not necessarily reflect the company\\'s cost of capital.

D. ROI does not reflect all economic gains.

Correct Answer: B

Choice "b" is correct. The primary disadvantage of using return on investment (ROI) rather than residual income (RI) to evaluate the performance of investment center managers is that ROI may lead to rejecting projects that yield positive cash flows. Profitable investment center managers might be reluctant to invest in projects that might lower their ROI (especially if their bonuses are based only on their investment center\\'s ROI), even though those projects might generate positive cash flows for the company as a whole.

This characteristic is often known as the "disincentive to invest."

Choice "a" is incorrect. The primary disadvantage of using return on investment (ROI) rather than residual income (RI) to evaluate the performance of investment center managers is that ROI may lead to rejecting projects that yield positive cash flows, not that ROI is a percentage and RI is a dollar amount.

The fact that one is a percentage and one is a dollar amount might make them a little harder to interpret, but this interpretation difficulty would certainly not seem to be the "primary" disadvantage.

Choice "c" is incorrect. The primary disadvantage of using return on investment (ROI) rather than residual income (RI) to evaluate the performance of investment center managers is that ROI may lead to rejecting projects that yield positive cash flows, not that ROI does not necessarily reflect the cost of capital.

Choice "d" is incorrect. The primary disadvantage of using return on investment (ROI) rather than residual income (RI) to evaluate the performance of investment center managers is that ROI may lead to rejecting projects that yield positive cash flows, not that ROI does not reflect all economic gains.