

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

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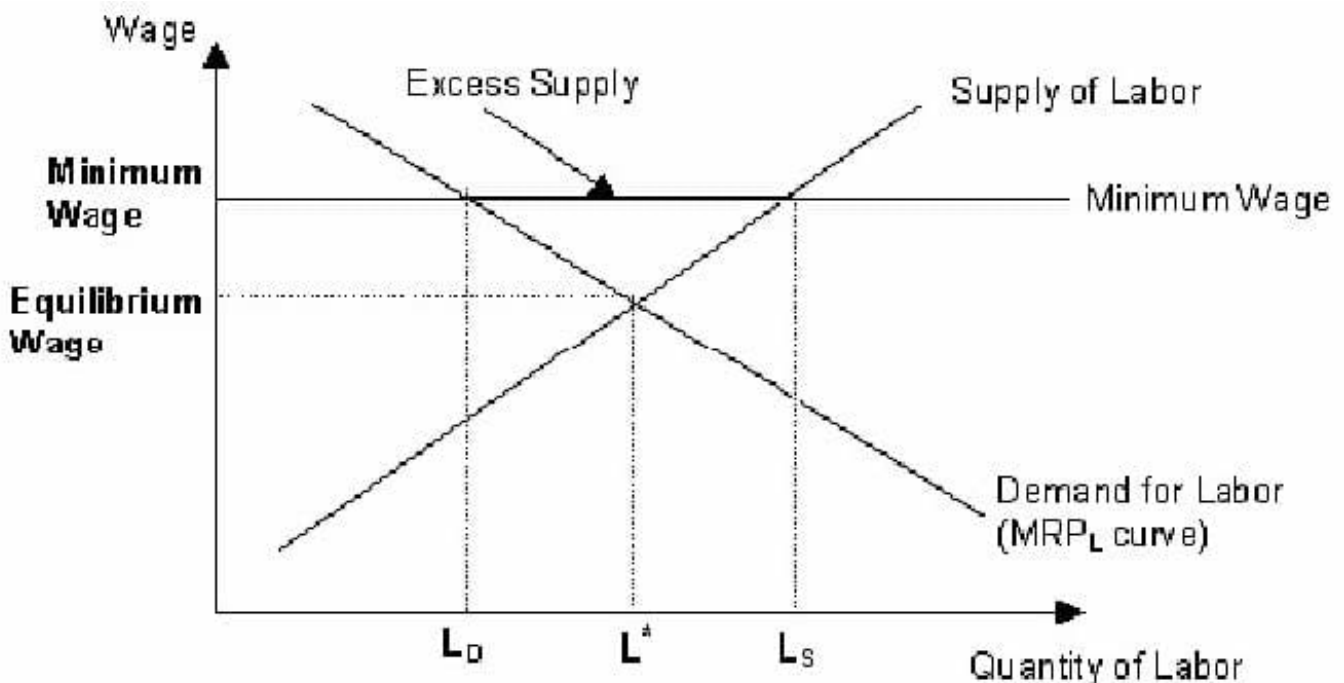
QUESTION 1

In a competitive labor market, a minimum wage that is set above the equilibrium wage will result in which of the following:

- A. A decrease in the quantity demanded of labor.
- B. An increase in the quantity supplied of labor.
- C. A decrease in total employment.
- D. All of the above.

Correct Answer: D

Choice "d" is correct. As illustrated in the graph, a minimum wage that is set above the equilibrium wage results in a decrease in the quantity demanded of labor (falls to L_D), an increase in the quantity supplied of labor (increases to L_S), and a decrease in total employment (total employment falls from L^* to L_D).



Choices "a", "b", and "c" are incorrect. All are true, making choice "d" the only right answer.

QUESTION 2

Which of the following statements is correct regarding the division of profits in a general partnership when the written partnership agreement only provides that losses be divided equally among the partners?

Profits are to be divided:

- A. Based on the partners\' ratio of contribution to the partnership.

- B. Based on the partners\' participation in day-to-day management.
- C. Equally among the partners.
- D. Proportionately among the partners.

Correct Answer: C

Choice "c" is correct.

Rule: When the partnership agreement is silent as to how profits are to be divided, they are divided equally. Note also that when the agreement is silent, losses are treated similar to profits, there is no reverse rule that profits are treated like losses.

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

QUESTION 3

For the next 2 years, a lease is estimated to have an operating net cash inflow of \$7,500 per annum, before adjusting for \$5,000 per annum tax basis lease amortization, and a 40% tax rate. The present value of an ordinary annuity of \$1 per year at 10% for 2 years is 1.74. What is the lease\'s after-tax present value using a 10% discount factor?

- A. \$2,610
- B. \$4,350
- C. \$9,570
- D. \$11,310

Correct Answer: D

Choice "d" is correct. Present value is based on the cash flows of an activity. Amortization is a non-cash expense that is considered only for its tax shield; therefore, the only relevant amounts are the \$7,500 operating net cash inflow and the tax paid.

PV of cash inflow, $\$7,500 \times 1.74$	\$13,050
PV of cash outflow for tax $(\$7,500 - \$5,000) \times 40\% \times 1.74$	<u>(1,740)</u>
After-tax PV	<u>\$11,310</u>

After-tax PV \$11,310 Choice "a" is incorrect. Amortization expense of \$5,000 is a non-cash expense and is not used to compute after-tax present value. It is used to determine the cash paid for taxes. Choice "b" is incorrect. Amortization is a non-cash expense. It is not considered in the calculation, except to the extent it creates a tax shield. The tax shield reduces the amount of taxes paid out by the company. Choice "c" is incorrect. Present value is based on the cash flows of an activity. Amortization is a noncash expense that is considered only for its tax shield; therefore, the only relevant amounts are the \$7,500 operating net cash inflow and the tax paid.

QUESTION 4

Jeb, a member in J and S LLC, sold his interest in the LLC to Chris without obtaining the other members' consent. Absent an agreement to the contrary, Chris:

- I. May participate in the management of J and S.
- II. May receive Jeb's share of J and S's profits.
- III.

Is not entitled to anything since Jeb did not obtain the other members' consent.

- A.
- I only.
- B.
- I and II only.
- C.
- II only.
- D.
- III only.

Correct Answer: C

Choice "c" is correct. Absent an agreement to the contrary, if a member in the LLC sells his interest in an LLC without obtaining the other members' consent, the assignee is only entitled to receive the assignor's share of profits. Choices "a", "b", and "d" are incorrect, because, absent an agreement to the contrary, although a member of an LLC is allowed to assign his interest in profits and losses, an assignee of a membership interest may not participate in the management of the LLC.

QUESTION 5

In order to sell at the rate of output in markets controlled by monopolists, price is set where:

- A. Price equals marginal cost.
- B. Marginal revenue equals marginal cost.
- C. Marginal revenue equals average total cost.
- D. Price equals average total cost.

Correct Answer: B

Choice "b" is correct. In order to sell at the rate of output in markets controlled by monopolists, the price is set where marginal revenue equals marginal cost. No matter which model is representative of the industry in which the firm operates, the firm will maximize profits by producing at $MR = MC$. The monopolist's price

will be higher than MR.

Choice "a" is incorrect. Price exceeds both MR and MC.

Choices "c" and "d" are incorrect, which are far-out distractors.

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