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QUESTION 1

Super Sets, Inc. manufactures and sells television sets. All sales are finalized on credit with terms of 2/10, n/30. Seventy percent of Super Set customers take discounts and pay on day 10, while the remaining 30% pay on day 30. What is the average collection period in days?

- A. 10
- B. 16
- C. 24
- D. 40

Correct Answer: B

Choice "b" is correct. The average collection period represents the weighted average of the periods that accounts receivable are outstanding and is computed as follows:

$$\begin{array}{rcl} \text{Customers paying on day 10} \times 70\% & = & 7 \\ \text{Customers paying on day 30} \times 30\% & = & \underline{9} \\ \text{Average collection period in days} & & \underline{16} \end{array}$$

Choice "a" is incorrect, per the above computation.

Choice "c" is incorrect. This proposed solution mismatches the percentages and the days and represents the sum of the products of $30 \times 70\%$ and $10 \times 30\%$.

Choice "d" is incorrect. This proposed solution is purely the sum of the two customer payment patterns presented, 10 and 30.

QUESTION 2

Which of the following is not correct about the purchasing power parity theory of explaining changes in exchange rates?

- A. Purchasing power of a common currency in different economies for similar products will remain the same.
- B. Inflationary forces on foreign and domestic currencies will cause the exchange rates to automatically adjust to ensure that a common currency will have identical or similar purchasing power in each economy for similar goods.
- C. Interest rates include a premium or discount that ensures purchasing power parity.
- D. The purchasing power parity theory is presented in both absolute and relative form.

Correct Answer: C



Choice "c" is correct. The purchasing power parity theory holds that inflation will cause exchange rates to automatically adjust to ensure that an equal amount of a common currency will purchase similar goods in separate economies. The International Fischer effect considers the premium or discount on interest rates as an indicator of inflation. Choice "a" is incorrect. The basic idea underlying the purchasing power parity theory is that the purchasing power of a common currency in different economies for similar products will remain the same and that inflation in any particular economy will cause exchange rates to adjust until parity is consistently achieved. Choice "b" is incorrect. The purchasing power parity theory holds that inflationary forces on foreign and domestic currencies will cause the exchange rates to automatically adjust to ensure that a common currency will have identical or similar purchasing power in each economy for similar goods. Choice "d" is incorrect. The purchasing power parity theory is presented as both an absolute theory of parity determination regardless of market imperfections and as a relative concept that considers market imperfections.

QUESTION 3

When applying value chain analysis, a firm sends its production manager to visit the operations of its major supplier in an attempt to determine if there are cost-savings capabilities that could be implemented at the supplier's warehouse. The firm is performing which form of value chain analysis?

- A. Internal differentiation analysis.
- B. Internal costs analysis.
- C. Vertical linkage analysis.
- D. None of the above.

Correct Answer: C

Choice "c" is correct. Analyzing the vertical linkage of a firm means understanding the activities of the suppliers and buyers of the product and determining where value can be created external to the firm's operations.

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

QUESTION 4

When a company offers credit terms of 2/10, net 30, the annual interest cost, based on a 360-day year, is:

- A. 24.0 percent.
- B. 35.3 percent.
- C. 36.0 percent.
- D. 36.7 percent.

Correct Answer: D

Choice "d" is correct. The formula for calculating the cost of a credit policy is:



$$\frac{360}{(\text{Total pay period} - \text{Discount period})} \times \frac{\text{Discount \%}}{(100\% - \text{Discount \%})} =$$
$$\frac{360}{(30 - 10)} \times \frac{2\%}{100\% - 2\%} = 36.7\%$$

Therefore, the cost of customers taking this discount is 36.7% of the invoice price of the sale. Choices "a", "b", and "c" are incorrect, per the above answer.

QUESTION 5

Gillie, Taft, and Dall are partners in an architectural firm. The partnership agreement is silent about the payment of salaries and the division of profits and losses. Gillie works full-time in the firm, and Taft and Dall each work half time. Taft invested \$120,000 in the firm, and Gillie and Dall invested \$60,000 each. Dall is responsible for bringing in 50% of the business, and Gillie and Taft 25% each. How should profits of \$120,000 for the year be divided?

- A. Gillie \$60,000, Taft \$30,000, Dall \$30,000.
- B. Gillie \$40,000, Taft \$40,000, Dall \$40,000.
- C. Gillie \$30,000, Taft \$60,000, Dall \$30,000.
- D. Gillie \$30,000, Taft \$30,000, Dall \$60,000.

Correct Answer: B

Choice "b" is correct. \$40,000 - \$40,000 - \$40,000 (equally).

Rule: In the absence of an agreement to the contrary, the profits will be shared equally regardless of investment of money or time.

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

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