BUSINESS-ENVIRONMENT-AND-CONCEPTS Q&As

Certified Public Accountant (Business Environment & Concept)

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QUESTION 1

The net present value (NPV) of a project has been calculated to be $215,000. Which one of the following changes in assumptions would decrease the NPV?

A. Decrease the estimated effective income tax rate.

B. Extend the project life and associated cash inflows.

C. Increase the estimated salvage value.

D. Increase the discount rate.

Correct Answer: D

Choice "d" is correct. An increase in the discount rate will decrease the present value of future cash inflows and, therefore, decrease the net present value of the project. Each of the other options would increase the NPV: Choice "a" is incorrect. A decrease in the estimated effective income tax rate will reduce the depreciation tax shield and therefore increase the cash inflow. A larger cash inflow in the future will increase the present value of the cash inflows and therefore increase the net present value of the project. Choice "b" is incorrect. Increasing the project life and associated cash inflows will increase the present value of the cash inflows and therefore increase the net present value. Choice "c" is incorrect. An increase in the estimated salvage value will decrease the present value of the cash outflow and therefore increase the net present value.

QUESTION 2

If a firm\\'s credit terms require payment within 45 days but allow a discount of 2 percent if paid within 15 days (using a 360 day year), the approximate cost/benefit of the trade credit terms is:

A. 16 percent.

B. 48 percent.

C. 24 percent.

D. 36 percent.

Correct Answer: C

Choice "c" is correct. The formula for computing the cost/benefit for trade discounts is:

$$\frac{360}{\left(\begin{array}{c}\text{Total pay} \\ \text{period}\end{array} - \begin{array}{c}\text{Discount)} \\ \text{period}\end{array}\right.} \times \frac{\text{Discount \%}}{(100\% - \text{Discount \%})} =$$

$$\frac{360}{(45-15)} \times \frac{2\%}{100\% - 2\%} = 24\%$$

Choice is 24% ("c").

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

QUESTION 3

An example of a carrying cost is:

A. Disruption of production schedules.

B. Quantity discounts lost.

C. Handling costs.

D. Obsolescence.

Correct Answer: D

Choice "d" is correct. Obsolescence is an example of a carrying cost. Choices "a", "b", and "c" are incorrect. Carrying cost is not:

A. Disruption of production schedules.

B. Quantity discounts lost.

C. Handling costs.

QUESTION 4

A period of inflation:

A. Increases the price level, which benefits those who are entitled to receive specific amounts of money.

B. Enhances the positive relationship between the price level and the purchasing power of money.

C. Harms anyone who has an obligation to pay a specific amount and benefits anyone who is entitled to receive a specific amount.

D. Increases the price level, which is negatively related to the purchasing power of money.

Correct Answer: D

Choice "d" is correct. A period of inflation increases the price level, which is negatively related to the

purchasing power of money (inflation erodes the value of money).

Choice "a" is incorrect. When price levels increase, those with fixed amounts of money are hurt.

Choice "b" is incorrect. The relationship between price levels and the purchasing power of money is

negative, or inverse.

Choice "c" is incorrect. Inflation helps anyone with a fixed obligation since the debt can be repaid in inflated dollars. Those receiving a specific fixed amount are harmed.

QUESTION 5

Under which of the following conditions is the supplier most able to influence or control buyers?

A. When the supplier\\'s products are not differentiated.

B. When the supplier does not face the threat of substitute products.

C. When the industry is controlled by a large number of companies.

D. When the purchasing industry is an important customer to the supplying industry.

Correct Answer: B

Choice "b" is correct. When there are few good substitutes for a supplier\\'s product, the supplier has market power (think of a monopoly). As a result, the supplier is better able to control buyers and act as a price setter rather than a price taker. Choice "a" is incorrect. When supplier\\'s products are not differentiated, buyers will be indifferent about which supplier they purchase from. In other words, if firms sell identical products (think of perfect competition) the product of one firm is a perfect substitute for the product of another firm. In this case, firms are price takers, not price setters. Choice "c" is incorrect. When there are a large number of firms, no one firm has much market power. This is the case of either perfect competition (if all firms sell identical products) or monopolistic competition (if all firms sell slightly differentiated products). Choice "d" is incorrect. If the purchasing industry is an important customer of the supplier, the purchasing industry (i.e. the buyer) will have some market power. This will diminish the ability of the supplier to influence or control the buyer.