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**QUESTION 1**

A limited liability company taxed under subchapter K of the Internal Revenue Code (the partnership subchapter):

- A. Must pay federal income tax.
- B. Is generally not considered a legal entity separate and apart from its owners.
- C. Must have written articles of organization.
- D. Must provide for apportionment of liability for the company's debts.

Correct Answer: C

Choice "c" is correct. A limited liability company must have written articles of organization, which must be filed with the state. Choice "a" is incorrect. An LLC taxed under subchapter K of the Internal Revenue Code (the partnership subchapter) does not pay federal income tax; the members are taxed on their share of the LLC's income. Choice "b" is incorrect. Unlike a general partnership, but like a corporation and a limited partnership, an LLC is considered a legal entity separate and apart from its owners. Choice "d" is incorrect. An LLC does not have to provide for apportionment of liability for LLC debts; the members of an LLC have limited liability.

QUESTION 2

Spotech Co.'s budgeted sales and budgeted cost of sales for the coming year are \$212,000,000 and \$132,500,000 respectively. Short-term interest rates are expected to average 5 percent. If Spotech could increase inventory turnover from its current 8 times per year to 10 times per year, its expected cost savings in the current year would be:

- A. \$165,625
- B. \$331,250
- C. \$81,812
- D. \$250,000

Correct Answer: A

Choice "a" is correct. \$165,625 expected cost savings by increasing inventory turnover from its current 8 times to 10 times per year.



<u>Cost Of Sales</u>		<u>Inventory Turnover</u>		<u>Avg. Inventory</u>
\$132,500,000	÷	8	=	\$16,562,500
132,500,000	÷	10	=	<u>13,250,000</u>
				3,312,500 Inventory Decrease
				× <u>5%</u> Interest Rate
				<u>\$ 165,625</u> Cost Savings

QUESTION 3

Osgood Products has announced that it plans to finance future investments so that the firm will achieve an optimum capital structure. Which one of the following corporate objectives is consistent with the announcement?

- A. Maximize earnings per share.
- B. Minimize the cost of debt.
- C. Maximize the net worth of the firm.
- D. Minimize the cost of equity.

Correct Answer: C

Choice "c" is correct. The optimal capital structure is the financial structure that would theoretically maximize shareholder wealth by maximizing the net worth of the company. Choices "a", "b", and "d" are incorrect. Strategies (not objectives) for creating an optimal capital structure to maximize net worth include:

1.
Maximizing earnings per share (choice "a").
2.
Minimizing the cost of debt (choice "b").
3.
Minimizing the cost of equity (choice "d").
4.
Maximizing cash flow (choice not given).

QUESTION 4



Which of the following corporate actions is subject to shareholder approval?

- A. Election of officers.
- B. Removal of officers.
- C. Declaration of cash dividends.
- D. Removal of directors.

Correct Answer: D

Choice "d" is correct. Shareholders have the right to elect and remove directors through the voting process.

Choice "a" is incorrect. Officers are selected by the directors rather than by the shareholders.

Choice "b" is incorrect. Because officers are selected by the directors, generally they may be removed only by the directors.

Choice "c" is incorrect. Dividends generally can be declared only by the directors; shareholders usually do not have any right to declare or vote on a distribution.

QUESTION 5

Amicable Wireless, Inc. offers credit terms of 2/10, net 30 for its customers. Sixty percent of Amicable's customers take the 2% discount and pay on day 10. The remainder of Amicable's customers pay on day

30. How many days' sales are in Amicable's accounts receivable?

- A. 6
- B. 12
- C. 18
- D. 20

Correct Answer: C

Choice "c" is correct. Days' sales in accounts receivable is normally calculated as $\text{Days' sales} = \frac{\text{Ending accounts receivable}}{\text{Average daily sales}}$. However, that formula will not work in this case because the necessary information is not provided. However, enough information about payments is provided so that the total days' sales can be determined on a weighted average basis. In this question, nobody pays before the 10th day and 60% of the customers pay on the 10th day, so there are $10 \times .60$, or 6 day's sales there. The other 40% of the customers pay on the 30th day so there are $30 \times .40$, or 12 day's sales there. The total is 18 days sales.

Choice "a" is incorrect. This answer is apparently calculated from just the 60% of the customers who pay on the 10th day. The others have to be included also. Choice "b" is incorrect. This answer is apparently calculated from just the 40% of the customers who pay on the 30th day. The others have to be included also. Choice "d" is incorrect. This answer is apparently calculated by as the difference between the 30th day and the 10th day. The answer does not take into account how many customers pay when.



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