



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

Certified Public Accountant (Business Environment & Concept)

Pass Test Prep BUSINESS-ENVIRONMENT-AND- CONCEPTS Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

<https://www.pass4itsure.com/business-environment-and-concepts.html>

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by Test Prep
Official Exam Center



VCE & PDF

Pass4itSure.com

<https://www.pass4itsure.com/business-environment-and-concepts.html>
2024 Latest pass4itsure BUSINESS-ENVIRONMENT-AND-CONCEPTS PDF
and VCE dumps Download

- ⚙️ **Instant Download** After Purchase
- ⚙️ **100% Money Back** Guarantee
- ⚙️ **365 Days** Free Update
- ⚙️ **800,000+** Satisfied Customers





QUESTION 1

The three elements needed to estimate the cost of equity capital for use in determining a firm's weighted average cost of capital are:

- A. Current dividends per share, expected growth rate in earnings per share, and current market price per share of common stock.
- B. Current earnings per share, expected growth rate in dividends per share, and current market price per share of common stock.
- C. Current earnings per share, expected growth rate in earnings per share, and current book value per share of common stock.
- D. Current dividends per share, expected growth rate in dividends per share, and current market price per share of common stock.

Correct Answer: D

Choice "d" is correct. The three elements needed to estimate the cost of equity capital are:

1.

Current dividends per share (D)

2.

Expected growth rate in dividends (g) and

3.

Current market price per share of common stock (P)

The question asks the candidate to identify the three elements needed to estimate the cost of equity capital for use in determining a firm's weighted average cost of capital. The cost of equity capital is defined by the following mathematical expression where the cost of capital or return (R) is: $R = D/P + g$ Choice "d" is consistent with our text, the and the Gordon Growth Model. Use of earnings per share, as suggested by choice "a" is sometimes referred to as the constant growth model and assumes that all earnings per share are either ultimately distributed or reinvested for the benefit of the shareholder. Earnings are anticipated to grow to infinity.

QUESTION 2

Absent a specific provision in its articles of incorporation, a corporation's board of directors has the unilateral power to do all of the following, except:

- A. Repeal the bylaws.
- B. Declare dividends.
- C. Fix compensation of directors.
- D. Amend the articles of incorporation.



Correct Answer: D

Choice "d" is correct. Amendment of the articles of incorporation, albeit proposed by the directors, cannot usually be effected without the affirmative vote of the shareholders. Choice "a" is incorrect. The directors ordinarily have the power to repeal bylaws unless the articles or the specific bylaw to be repealed provides otherwise. Choice "b" is incorrect. The directors have the power to declare dividends at their discretion as long as the dividends do not violate any statute, article provision, bylaw, or contract with a creditor. Choice "c" is incorrect. Although it seems like there would be a conflict of interest, directors do have the power to set their own compensation, limited only by the fiduciary duties owed to the corporation (e.g., the directors cannot set salaries so high as to constitute waste).

QUESTION 3

The net present value of a proposed investment is negative; therefore, the discount rate used must be:

- A. Greater than the project's internal rate of return.
- B. Less than the project's internal rate of return.
- C. Greater than the firm's cost of equity.
- D. Less than the incremental borrowing rate.

Correct Answer: A

Choice "a" is correct. If the NPV of a proposed investment is negative, the discount rate used must be greater than the project's internal rate of return (IRR).

The IRR is the discount rate that results in a NPV of zero.

If a discount rate used is greater than the project's IRR, the present value of future cash inflows will be lower resulting in a negative net present value. If a discount rate used is less than the project's IRR, the present value of future cash inflows will be higher resulting in a positive net present value.

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

QUESTION 4

In 1990, Amber Corp., a closely held corporation, was formed by Adams, Frank, and Berg as incorporators and stockholders. Adams, Frank, and Berg executed a written voting agreement which provided that they would vote for each other as directors and officers. In 1994, stock in the corporation was offered to the public. This resulted in an additional 300 stockholders. After the offering, Adams holds 25%, Frank holds 15%, and Berg holds 15% of all issued and outstanding stock. Adams, Frank, and Berg have been directors and officers of the corporation since the corporation was formed. Regular meetings of the board of directors and annual stockholders meetings have been held. For this question refer to the formation of Amber Corp. and the rights and duties of its stockholders, directors, and officers. Amber Corp.'s day-to-day business ordinarily would be operated by its:

- A. Directors.
- B. Stockholders.



C. Officers.

Correct Answer: C

Choice "c" is correct. Stockholders have no day-to-day control; management power of a corporation is vested in the directors, but they usually delegate day-to-day management duties to the officers.

QUESTION 5

Carlisle Company presently sells 400,000 bottles of perfume each year. Each bottle costs \$.84 to produce and sells for \$1.00. Fixed costs are \$28,000 per year. The firm has annual interest expense of \$6,000, preferred stock dividends of \$2,000 per year, and a 40 percent tax rate. Carlisle uses the following formulas to determine the company's leverage.

$$\text{Operating leverage} = \frac{Q (S - VC)}{Q (S - VC) - FC}$$

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBIT} - I - [P + (1 - t)]}$$

$$\text{Total leverage} = \frac{Q (S - VC)}{Q(S - VC) - FC - I - [P + (1 - t)]}$$

Where:	Q	=	Quantity
	FC	=	Fixed cost
	VC	=	Variable cost
	S	=	Selling price
	I	=	Interest expense
	P	=	Preferred dividends
	t	=	Tax rate
	EBIT	=	Earnings before interest and taxes

The degree of operating leverage for Carlisle Company is:

- A. 2.4
- B. 1.78
- C. 1.35
- D. 2.3

Correct Answer: B

Choice "b" is correct. Calculation of operating leverage is:



$$\text{Operating leverage} = \frac{400,000 (\$1.00 - .84)}{400,000 (\$1.00 - .84) - \$28,000} = 1.78 \text{ B}$$

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

[Latest BUSINESS-ENVIRONMENT-AND-CONCEPTS Dumps](#)

[BUSINESS-ENVIRONMENT-AND-CONCEPTS VCE Dumps](#)

[BUSINESS-ENVIRONMENT-AND-CONCEPTS Study Guide](#)