

AICPA

CPA-Business
CPA Business Environment and Concepts



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Question: 1

Fanny and John each own and manage their own companies. Fanny's business is manufacturing freight boxes of all types, and John's business is selling freight boxes to different industries. They decide to combine their expertise and knowledge to produce and sell freight boxes specifically designed for the new airline company that just formed in their city. Which of the following best describes the business formed by the parties?

- A. A general partnership.
- B. A limited liability partnership.
- C. A sole proprietorship.
- D. A joint venture.

Answer: D

Explanation:

Choice "d" is correct. A joint venture is formed for a single business undertaking such as building and designing freight containers to be sold specifically to one company. Each company coming together in this joint venture has its own business outside of this one endeavor.

Choice "a" is incorrect. A general partnership is more broad in its business purpose than a joint venture is.

Choice "b" is incorrect. A limited liability partnership is primarily designed for professionals who want to work as partners but with limited personal liability.

Choice "c" is incorrect. Sole proprietorships have only one person in the business.

Question: 2

A sole proprietorship would be an ideal form of business to select if:

- A. The individual desired no liability beyond his capital investment.
- B. The individual wanted to be able sell the business at will.
- C. The individual wanted the business to be a separate entity from the sole proprietor.
- D. The individual wanted the business to continue indefinitely.

Answer: B

Explanation:

Choice "b" is correct. A sole proprietor is free to transfer or sell the business at will.

Choice "a" is incorrect because a sole proprietor is personally liable for all obligations of the business.

Choice "c" is incorrect. A sole proprietorship is not considered an entity separate from the sole proprietor.
 Choice "d" is incorrect because a sole proprietorship ends with the death of the sole proprietor.

Question: 3

Formation of which of the following types of business does not require the filing of documents with the state?

	<u>Corporation</u>	<u>Limited Partnership</u>	<u>Sole Proprietorship</u>
A.	Need not file	Need not file	Need not file
B.	Need not file	Must file	Need not file
C.	Must file	Must file	Need not file
D.	Must file	Need not file	Must file

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: C

Explanation:

Choice "c" is correct. A sole proprietorship can be formed without filing with the state.
 Formation of either a corporation or a limited partnership requires a filing.
 Choices "a", "b", and "d" are incorrect per the Explanation: above.

Question: 4

Which of the following forms of business can be formed with only one individual owning the business?

	<u>Sole Proprietorship</u>	<u>Limited Liability Company</u>	<u>Partnership</u>
A.	Yes	Yes	Yes
B.	Yes	Yes	No
C.	Yes	No	Yes
D.	No	No	No

- A. Option A
- B. Option B

- C. Option C
- D. Option D

Answer: B

Explanation:

Choice "b" is correct. A sole proprietorship and (in most states) a limited liability company can be formed with only one owner. A partnership requires two or more partners.

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

Question: 5

Noll Corp. and Orr Corp. are contemplating entering into an unincorporated joint venture. Such a joint venture:

- A. Will be treated as a partnership in most important legal respects.
- B. Must be dissolved upon the completion of a single undertaking.
- C. Will be treated as an association for federal income tax purposes and taxed at the prevailing corporate rates.
- D. Must file a certificate of limited partnership with the appropriate state agency.

Answer: A

Explanation:

Choice "a" is correct. The legal requirements, the consequences, the advantages, and disadvantages of forming a joint venture generally are identical to those of a general partnership. Joint ventures are treated as a partnership in most important legal aspects.

Choice "b" is incorrect. A joint venture need not be dissolved upon the completion of a single undertaking. Joint ventures may be formed for a single transaction or for a related series of transactions.

Choice "c" is incorrect because a joint venture would be taxed like a partnership, not a corporation.

Choice "d" is incorrect because a joint venture, like a partnership, may be formed without filing with the state.

Question: 6

What term is used to describe a partnership without a specified duration?

- A. A perpetual partnership.
- B. A partnership by estoppel.
- C. An indefinite partnership.

D. A partnership at will.

Answer: D

Explanation:

Choice "d" is correct. A partnership at will is a partnership with no definite term (i.e., without specified duration). Such a partnership can be terminated at any time.

Choice "a" is incorrect. A partnership without a specified duration is called a partnership at will, not a perpetual partnership. There is no such thing as a perpetual partnership because a partnership is not perpetual. A partnership may be dissolved after a partner dies or otherwise dissociates from the partnership.

Choice "b" is incorrect. A partnership by estoppel is the appearance of a partnership when there is no formal partnership. If parties who are not partners give the appearance to third parties that they are partners, the law may deem the parties to be a partnership by estoppel. The parties will be treated as partners, even though they are not.

Choice "c" is incorrect. The legal term for a partnership of indefinite duration is a partnership at will, not an indefinite partnership.

General Partnership

Question: 7

A general partnership must:

- A. Pay federal income tax.
- B. Have two or more partners.
- C. Have written articles of partnership.
- D. Provide for apportionment of liability for partnership debts.

Answer: B

Explanation:

Choice "b" is correct. A partnership is an organization of two or more persons who carry on a business for a profit.

Choice "a" is incorrect. Partnerships do not pay federal income taxes; the partners report their shares of the partnership's income on their individual returns.

Choice "c" is incorrect. A partnership agreement need not be in writing.

Choice "d" is incorrect. If the partnership agreement is silent on the apportionment of liability for partnership debts, state law or the Uniform Partnership Act will cover the omission.

Question: 8

When a partner in a general partnership lacks actual or apparent authority to contract on behalf of the partnership, and the party contracted with is aware of this fact, the partnership will be bound by the contract if the other partners:

	<u>Ratify the contract</u>	<u>Amend the partnership agreement</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: B

Explanation:

Choice "b" is correct. "Yes - No."

Rule: The authority of partners is governed by agency law. Under agency law, a principal is not bound to the third party unless the agent had actual authority or apparent authority. When the agent has no actual authority and no apparent authority, the principal (in this case the partnership) will only be liable if it chooses to adopt the agreement (i.e., ratify).

Rule: Amending the partnership agreement (presumably to grant authority) will not cause the partnership to be bound because authority must exist at the time the contract is made or the partnership must ratify the contract.

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

Question: 9

On February 1, Addison, Bradley, and Carter, physicians, formed ABC Medical Partnership. Dr. Bradley was placed in charge of the partnership's financial books and records. On April 1, Dr. Addison joined the City Hospital Medical Partnership, retaining the partnership interest in ABC. On May 1, ABC received a writ of attachment from the court attaching Dr. Carter's interest in ABC. The writ resulted from Dr. Carter's failure to pay a credit card bill. On June 1, Dr. Addison was adjudicated bankrupt. On July 1, Dr. Bradley was sued by the other partners of ABC for an accounting of ABC's revenues and expenses.

Under the Revised Uniform Partnership Act, which of the preceding events resulted in the dissociation of a partner?

- A. Dr. Addison joining the City Hospital Medical Partnership.
- B. Dr. Carter's interest in the partnership being attached by the court.
- C. Dr. Addison being adjudicated bankrupt.
- D. Dr. Bradley being sued for an accounting by the other partners of ABC.

Answer: C

Explanation:

Choice "c" is correct. The bankruptcy of a partner will result in the dissociation of a partner.

Choice "a" is incorrect, because although joining the city hospital medical partnership could be construed as a breach of fiduciary duty owed to the other partners in ABC medical partnership, standing alone, it would not result in a dissociation.

Choice "b" is incorrect. All that was attached was the partner's right to distributions, which does not cause dissociation.

Choice "d" is incorrect, because although being sued might cause Dr. Bradley to resign, which would cause dissociation, standing alone, being sued by the other partners does not cause dissociation.

Question: 10

When parties intend to create a partnership that will be recognized under the Revised Uniform Partnership Act, they must agree to:

	<i><u>Conduct a business for profit</u></i>	<i><u>Share gross receipts from a business</u></i>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A. Option A

-
- B. Option B
 - C. Option C
 - D. Option D

Answer: B

Explanation:

Choice "b" is correct. "Yes - No."

Rule: A partnership is an agreement between two or more persons to carry on, as co-owners, a business for profit; partners share management and profits and losses, not gross receipts.

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

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