

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

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QUESTION 1

A period during which real GDP is rising and unemployment is falling is called a(n):

- A. Recession.
- B. Peak.
- C. Expansion.
- D. Trough.

Correct Answer: A

Choice "c" is correct. During an expansion, real GDP is rising and unemployment is falling.

Choice "a" is incorrect. A recession is when real GDP is falling NOT rising.

Choice "b" is incorrect. A peak is the highest point of economic activity. It is the point where real GDP is at its highest level in the cycle and unemployment is at its lowest level in the cycle. Choice "d" is incorrect. A trough is the lowest level of economic activity. It is the point where real GDP is at its lowest level in the cycle and unemployment is at its highest level in the cycle.

QUESTION 2

The president of a company has signed a \$10 million contract with a construction company to build a new corporate office. Which of the following corporate documents sets forth the scope of authority under which this transaction is governed?

- A. Certificate of Incorporation.
- B. Charter.
- C. Bylaws.
- D. Proxy statement.

Correct Answer: C

Choice "c" is correct. The bylaws usually contain the rules for running the corporation.

Choices "a" and "b" are incorrect. These are possible choices, but not as good an answer as "c". A corporation's articles of incorporation (called a charter in a few states) must set out certain information relevant to formation of the corporation, but it may include any other information that it is not illegal. However, usually details about intracorporate power are set out in bylaws rather than in the articles or charter.

Choice "d" is incorrect. A proxy statement is a request to shareholders to allow their shares to be voted by a specified person in a specified way. It has nothing to do with a corporate president's authority.

QUESTION 3

White, Grey, and Fox formed a limited partnership. White is the general partner and Grey and Fox are the limited partners. Each agreed to contribute \$200,000. Grey and Fox each contributed \$200,000 in cash while White contributed \$150,000 in cash and \$50,000 worth of services already rendered. After two years, the partnership is insolvent. The fair market value of the assets of the partnership is \$150,000 and the liabilities total \$275,000. The partners have made no withdrawals. Unless otherwise provided in the certificate of limited partnership, which of the following is correct if Fox assigns her interest in the partnership to Barr and only White consents to Barr's admission as a limited partner?

- A. Barr will not become a substituted limited partner unless Grey also consents.
- B. Barr will have the right to inspect the partnership's books.
- C. The partnership will be dissolved.
- D. Barr will become a substituted limited partner because White, as general partner, consented.

Correct Answer: A

Choice "a" is correct. In the absence of an agreement between all partners, the assignment of a partner's interest does not make the assignee a substitute partner; it merely transfers the assignor's rights to distributions to the assignee. Choice "b" is incorrect. Absent an agreement among the partners otherwise, an assignment of an interest in a partnership is merely an assignment of the assignor's rights to receive distributions from the partnership and does not give the assignee any right to inspect the partnership's books. Choice "c" is incorrect. Absent an agreement among the partners otherwise, an assignment of an interest in a partnership is merely an assignment of the assignor's rights to receive distributions from the partnership; it does not make the assignee a new partner. Since there is no change in who is a partner, there is no dissolution. Choice "d" is incorrect. All partners must agree to make someone a partner, not just the general partner.

QUESTION 4

A company has total costs of \$100,000, of which 40% is variable costs. What is the operating leverage?

- A. .40
- B. .60
- C. 1.5
- D. 2.5

Correct Answer: C

Choice "c" is correct. A shortcut computation for operating leverage is the ratio of fixed costs to variable costs. If total cost is \$100,000 and variable cost is 40% of total costs (or \$40,000), then fixed costs must be 60% (or \$60,000). Operating leverage is then calculated as follows:

$\$60,000/\$40,000 = 1.5$

Choice "a" is incorrect. .4 is obtained by dividing \$100,000 into the variable cost of \$40,000.

Choice "b" is incorrect. .6 is obtained by dividing total costs into fixed costs.

Choice "d" is incorrect. 2.5 is obtained by dividing total costs by variable costs.

QUESTION 5

Jeb, a member in J and S LLC, sold his interest in the LLC to Chris without obtaining the other members' consent. Absent an agreement to the contrary, Chris:

- I. May participate in the management of J and S.
- II. May receive Jeb's share of J and S's profits.
- III.

Is not entitled to anything since Jeb did not obtain the other members' consent.

- A.
- I only.
- B.
- I and II only.
- C.
- II only.
- D.
- III only.

Correct Answer: C

Choice "c" is correct. Absent an agreement to the contrary, if a member in the LLC sells his interest in an LLC without obtaining the other members' consent, the assignee is only entitled to receive the assignor's share of profits. Choices "a", "b", and "d" are incorrect, because, absent an agreement to the contrary, although a member of an LLC is allowed to assign his interest in profits and losses, an assignee of a membership interest may not participate in the management of the LLC.

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