

AICPA

CPA-Business Exam

CPA Business Environment and Concepts

[Questions & Answers Demo]

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:

	<i>Ratify the contract</i>	<i>Amend the partnership agreement</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: 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>Conduct a business for profit</i>	<i>Share gross receipts from a business</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.

Question: 11

Park and Graham entered into a written partnership agreement to operate a retail store. Their agreement was silent as to the duration of the partnership. Park wishes to dissociate from the partnership. Which of the following statements is correct?

- A. Park may dissociate from the partnership at any time.
- B. Unless Graham consents to the dissociation, Park must apply to a court and obtain a decree ordering the dissociation.
- C. Park may not dissociate from the partnership unless Graham consents.
- D. Park may dissociate from the partnership only after notice of the proposed dissolution is given to all partnership creditors.

Answer: A

Explanation:

Choice "a" is correct. Because the agreement is silent as to duration, it is a partnership at will. A partner may dissociate from a partnership at will at any time.

Choice "b" is incorrect. Because the agreement is silent as to duration, it is a partnership at will. A partner may dissociate from a partnership at will at any time. No court order is required.

Choice "c" is incorrect. Partnerships are consensual relationships, so any partner has the power to dissociate at any time; he or she need not obtain the consent of the other partners (though absent consent, the partner will be liable for damages if the dissociation is wrongful).

Choice "d" is incorrect. There is no requirement of giving partnership creditors a formal notice of intent to dissociate, but it is a good idea to do so to avoid liability on future partnership obligations.

Question: 12

The partners of College Assoc., a general partnership, decided to dissolve the partnership and agreed that none of the partners would continue to use the partnership name. Under the Revised Uniform Partnership Act, which of the following events will occur on dissolution of the partnership?

	<i>Each partner's existing liability would be discharged</i>	<i>Each partner's apparent authority would continue</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: C

Explanation:

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

Rule: Upon the dissolution of the partnership, each of the partners continues to have liability for partnership debts. Upon dissolution of the partnership each of the partners will continue to have apparent authority. The apparent authority of a partner can only be negated upon proper notice to third parties.

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

Question: 13

Which of the following requirements must be met to have a valid partnership exist?

- I. Co-ownership of all property used in a business.
- II. Co-ownership of a business for profit.

- A. I only.
- B. II only.
- C. Both I and II.
- D. Neither I nor II.

Answer: B

Explanation:

Choice "b" is correct.

Rule: A partnership is defined as an association of two or more persons who agree to carry on as coowners a business for profit. Thus, II is necessary. However, there is no requirement that all property used in the business be co-owned; it may be owned by individual partners. Thus I is not necessary.

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

Question: 14

Locke and Vorst were general partners in a kitchen equipment business. On behalf of the partnership,

Locke contracted to purchase 15 stoves from Gage. Unknown to Gage, Locke was not authorized by the partnership agreement to make such contracts. Vorst refused to allow the partnership to accept delivery of the stoves and Gage sought to enforce the contract. Gage will:

- A. Lose, because Locke's action was not authorized by the partnership agreement.
- B. Lose, because Locke was not an agent of the partnership.
- C. Win, because Locke had express authority to bind the partnership.
- D. Win, because Locke had apparent authority to bind the partnership.

Answer: D

Explanation:

Choice "d" is correct. Every partner is an agent of the partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership. It would be usual for a partner in a kitchen equipment business to have authority to purchase stoves. Thus, Gage will win because of Locke's apparent authority.

Choice "a" is incorrect. Every partner is an agent for his partnership and has apparent authority to bind the partnership to contracts that appear to carry on in the usual way the business of the partnership.

Choice "b" is incorrect. Every partner is an agent of the partnership.

Choice "c" is incorrect. Locke did not have express authority to purchase the stoves. The facts state that Locke was not authorized to purchase the stoves and thus lacked express authority.

Question: 15

In a general partnership, the authorization of all partners is required for an individual partner to bind the partnership in a business transaction to:

- A. Purchase inventory.
- B. Hire employees.
- C. Sell goodwill.
- D. Sign advertising contracts.

Answer: C

Explanation:

Choice "c" is correct. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. No such authority exists, however, for transactions outside the regular scope of business. The sale of a business's goodwill is extraordinary and is outside the ordinary scope of business. Thus, a partner must get authorization from all other partners to make the sale.

Choice "a" is incorrect. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. Purchasing inventory is within the regular scope of business, so a partner need not get permission from the other partners to bind the partnership.

Choice "b" is incorrect. All partners have apparent authority to enter into transactions apparently within the regular scope of the partnership business. Hiring employees is within the regular scope of a business, so a partner need not get permission from the other partners to bind the partnership.

Choice "d" is incorrect. All partners have apparent authority to enter into transactions apparently within

the regular scope of the partnership business. Entering into advertising contracts is within the regular course of business, and so a partner need not get permission from the other partners to bind the partnership.

Question: 16

On dissolution of a general partnership, distributions will be made on account of:

- I. Partners' capital accounts.
- II. Amounts owed partners with respect to profits.
- III. Amounts owed partners for loans to the partnership.

In the following order:

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

Answer: A

Explanation:

Choice "a" is correct.

Rule: On dissolution of a general partnership the "order of distribution" would be as follows:

- III. General partner loans.
- I. Partners' capital accounts.
- II. General partners' profits.

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

Question: 17

Which of the following is not necessary to create an express partnership?

- A. Execution of a written partnership agreement.
- B. Agreement to share ownership of the partnership.
- C. Intention to conduct a business for profit.
- D. Intention to create a relationship recognized as a partnership.

Answer: A

Explanation:

Choice "a" is correct. A written partnership agreement, while certainly desirable, is not usually necessary to form a valid partnership; partnership agreements are not normally subject to the statute of frauds.

Choice "b" is incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. Thus, an agreement to share ownership of the partnership is a requirement for creating an express partnership.

Choice "c" is incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. Thus, an intent to carry on a business for a profit is a requirement for

creating an express partnership.

Choice "d" is incorrect. A partnership is an association of two or more persons who agree to carry on as co-owners of a business for profit. The intent to create a business relationship recognized as a partnership is a requirement for creating an express partnership.

Question: 18

Eller, Fort, and Owens do business as Venture Associates, a general partnership. Trent Corp. brought a breach of contract suit against Venture and Eller individually. Trent won the suit and filed a judgment against both Venture and Eller. Trent will generally be able to collect the judgment from:

- A. Partnership assets only.
- B. The personal assets of Eller, Fort, and Owens only.
- C. Eller's personal assets only after partnership assets are exhausted.
- D. Eller's personal assets only.

Answer: C

Explanation:

Choice "c" is correct. When a judgment is obtained against both a partnership and an individual general partner, the plaintiff must proceed against the partnership assets first and then the assets of any individual general partner. The partnership assets must be exhausted before any general partner's individual assets can be attached.

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

Question: 19

Heather, Erika, and Shelby are members in HES LLC. Heather works 40 hours per week and Erika and Shelby work 20 hours per week. Heather contributed \$30,000 to the LLC and Erika and Shelby contributed \$60,000 each. Erika and Shelby have each originated 45% of the LLC's business and Heather has originated the other 10%.

If HES were a general partnership, who controls management?

- A. Heather, because she works the most.
- B. Erika and Shelby equally because they contributed the most.
- C. Heather, Erika, and Shelby equally because of state law.
- D. Erika and Shelby, because they originate most of the work.

Answer: C

Explanation:

Choice "c" is correct.

Rule: Absent an agreement to the contrary, partners have equal management authority.

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

Question: 20

Rivers and Lee want to form a partnership. For the partnership agreement to be enforceable, it must be in writing if:

- A. Rivers and Lee reside in different states.
- B. The agreement cannot be completed within one year from the date on which it will be entered into.
- C. Either Rivers or Lee is to contribute more than \$500 in capital.
- D. The partnership intends to buy and sell real estate.

Answer: B

Explanation:

Choice "b" is correct. A transaction which cannot be completed within a year must be in writing to be enforceable.

Choice "a" is incorrect. Residence of the prospective partners is not relevant.

Choice "c" is incorrect. The statute of frauds \$500 threshold applies to the sale of goods only.

Choice "d" is incorrect. Transactions in land are within the statute of frauds, but the possibility that a partnership may engage in a real estate transaction is not a transaction in land.