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QUESTION & ANSWER

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Exam : **Business-Environment
-and-Concepts**

Title : Certified Public Accountant
(Business Environment &
Concept)

Version : DEMO

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.

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.

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.

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.

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.