Chapter 01 Accounting: Information for Decision Making

1) Managerial accounting information is designed primarily to assist investors and creditors in deciding how to allocate scarce resources.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Accounting Information: A Means to an End

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Bloom's: Remember

AACSB: Reflective Thinking

2) All internal control systems need to be monitored.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Reflective Thinking

3) Management accounting information is oriented toward the future while financial accounting information is historical in nature.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Reflective Thinking

4) Return on investment is the same as return of investment.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

5) The IRS tax return is one of the primary financial statements.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Reflective Thinking

6) External users of accounting information have a financial interest in an entity but are not involved with the day-to-day operations of the enterprise.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Reflective Thinking

7) The tailoring of an accounting report to meet the needs of a specific decision maker is more characteristic of financial accounting reports than of management accounting reports.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking; Communication

8) The annual financial statements of large corporations such as Microsoft or PepsiCo need not be audited by independent certified public accountants, since these firms maintain large accounting departments as part of their organizations.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

9) The statement of financial position and the income statement are one and the same.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

10) Investors are individuals and other enterprises that have provided equity to the reporting enterprise.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Reflective Thinking

11) A statement of cash flows depicts the way profits have changed during a designated period.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

12) Management accounting refers to the preparation and use of accounting information designed to meet the needs of decision makers outside the business organization.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

13) The content of management accounting reports needs to be presented in conformity with generally accepted accounting principles.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

14) One purpose of generally accepted accounting principles is to make accounting information prepared by different companies more comparable.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

15) An accounting practice can become a "generally accepted accounting principle" through widespread use, even if the practice is not mentioned in the official pronouncements of the accounting standard-setting organizations.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Communication

16) The Public Company Accounting Oversight Board is responsible for creating and promoting International Financial Reporting Standards.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Reflective Thinking

17) Today, the most authoritative source of generally accepted accounting principles is the American Accounting Association.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Communication

18) The American Institute of Certified Public Accountants has the legal authority over publicly held corporations to enforce compliance with generally accepted accounting principles.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Professional Organizations

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Communication

19) The Securities and Exchange Commission is instrumental in the development of financial accounting standards.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

20) Financial accounting standards issued by the FASB are considered generally accepted accounting principles.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Communication

21) Generally accepted accounting principles were established by the American Accounting Association in 1934 and are updated annually by Congress.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Communication

22) The CPA examination is administered by the General Accounting Office of the U. S. Government.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Professional Organizations

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Analytical Thinking

23) The Sarbanes-Oxley Act places responsibility on CEOs and CFOs of companies to certify the fairness of a company's financial statements. The Act also created the Public Company Accounting Oversight Board, which oversees the public accounting profession.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Competence, Judgment, and Ethical Behavior

Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Remember

AACSB: Ethics

24) The Code of Ethics of the AICPA calls for a commitment to ethical behavior but not at the sacrifice of personal advantage.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Competence, Judgment, and Ethical Behavior

Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Understand

AACSB: Ethics

25) The Code of Ethics of the AICPA calls for a member in public practice to be independent in fact and appearance when providing auditing services.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Competence, Judgment, and Ethical Behavior

Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Understand

AACSB: Ethics

26) Public accounting is the segment of the profession where professionals offer audit, tax, and consulting services to clients.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Communication

27) Career opportunities in accounting exist in public accounting, management accounting, governmental accounting, and accounting education.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Communication

28) Financial accounting information is:

A) Designed to assist investors and creditors.

B) Submitted to the IRS in lieu of a tax form.

C) Called "special-purpose" accounting information.

D) Not applicable to individuals.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Accounting Information: A Means to an End

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Bloom's: Remember

AACSB: Communication

29) Which of the following does *not* describe accounting?

A) It is commonly referred to as the language of business.

B) It is an end rather than a means to an end.

C) It is useful for decision-making.

D) It is used by businesses, governments, non-profit organizations, and individuals.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Information: A Means to an End

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Bloom's: Remember

AACSB: Communication

30) The field of accounting may best be described as:

A) Recording the financial transactions of an economic entity.

B) Developing information in conformity with generally accepted accounting principles.

C) The art of interpreting, measuring, and describing economic activity.

D) Developing the information required for the preparation of income tax returns.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Information: A Means to an End

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Bloom's: Understand

AACSB: Reflective Thinking

31) The basic purpose of bookkeeping is to:

A) Provide financial information about an economic entity.

B) Develop the types of information best-suited to specific managerial decisions.

C) Record the financial transactions of an economic entity.

D) Determine the taxable income of individuals and business entities.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Reflective Thinking

32) Which of the following is *not* characteristic of financial accounting?

A) Information used in financial statements is prepared in conformity with generally accepted accounting principles.

B) The information is confidential and is intended for use only by company management.

C) The information is used in a wide variety of business decisions.

D) The information is developed primarily by "private accountants" that is, accountants employed by business organizations.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Information: A Means to an End

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Bloom's: Understand

AACSB: Communication

33) The accounting systems of most business organizations:

A) Are tailored to meet the organization's needs for accounting information and the resources available for operating the system.

B) Are similar in design to the journals, ledgers, and worksheets illustrated in this text.

C) Utilize data bases, rather than ledger accounts.

D) Are designed by the CPA firm that performs the annual financial audit.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Technology

34) The New York Stock Exchange requires all listed companies to:

A) Register with the PCAOB (Public Company Accounting Oversight Board).

B) Send financial statements directly to investors, creditors, and other users of financial information.

C) Maintain an internal audit function.

D) Use IFRS (International Financial Reporting Standards) for financial statement reporting purposes.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Reflective Thinking

35) Which of the following is *not* a basic function of an accounting system?

A) To interpret and record the effects of business transactions.

B) To classify the effects of similar transactions in a manner that permits determination of various totals and subtotals useful to management.

C) To ensure that a business organization will be managed profitably.

D) To summarize and communicate information to decision makers.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Technology

36) Information is cost effective when:

A) The information aids management in controlling costs.

B) The information is based upon historical costs, rather than upon estimated market values.

C) The value of the information exceeds the cost of producing it.

D) The information is generated by a computer based accounting system.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Reflective Thinking

37) Which of the following events is *not* a transaction that would be recorded in a company's accounting records?

A) The purchase of equipment for cash.

B) The purchase of equipment on account.

C) The investment of additional cash in the business by the owner.

D) The death of a key executive.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Apply

AACSB: Analytical Thinking

38) A strong internal control structure:

A) Contributes to the accuracy and verifiability of the accounting records.

B) Will prevent a business from operating at a loss.

C) Ensures a business will remain solvent.

D) Will prevent fraud, theft, and embezzlement.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Analytical Thinking

39) The best definition of an accounting system is:

A) Journals, ledgers, and worksheets.

B) Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.

C) The personnel, procedures, technology, and records used by an entity to develop accounting information and communicate this information to decision makers.

D) The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Reflective Thinking

40) The objectives of an accounting system include all of the following, *except*:

A) Interpret and record the effects of business transactions.

B) Classify the effects of transactions to facilitate the preparation of reports.

C) Summarize and communicate information to decision makers.

D) Dictate the specific types of business transactions the enterprise may pursue.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

Bloom's: Understand

AACSB: Analytical Thinking

41) Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $8,000 to help get the company started, and they have promised to repay your $8,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

A) $8,000 B) $800 C) $8,800 D) $7,200

Answer: B

Explanation: A) Return on investment is payment for usage of the money—interest in this setting. 10% × $8,000 = $800.

B) Return on investment is payment for usage of the money—interest in this setting. 10% × $8,000 = $800.

C) Return on investment is payment for usage of the money—interest in this setting. 10% × $8,000 = $800.

D) Return on investment is payment for usage of the money—interest in this setting. 10% × $8,000 = $800.

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Apply

AACSB: Analytical Thinking

42) Which of the following is generally *not* considered one of the general purpose financial statements issued by a corporation?

A) Income statement forecast for the coming year.

B) Balance sheet.

C) Statement of financial position.

D) Statement of cash flows.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

43) Which of the following is considered a return "on" investment?

A) Dividends. B) Repayment of a loan.

C) Purchase of an asset. D) Securing a loan.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

44) The financial statements of a business entity:

A) Include the balance sheet, income statement, and income tax return.

B) Provide information about the cash flow prospects of the company.

C) Are the first step in the accounting process.

D) Are prepared for a fee by the Financial Accounting Standards Board.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

45) Which of the following are *not* considered "external" users of financial statements?

A) Owners. B) Creditors. C) Labor unions. D) Managers.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

46) Financial statements are designed primarily to:

A) Provide managers with detailed information tailored to the managers' specific information needs.

B) Provide people outside the business organization with information about the company's financial position and operating results.

C) Report to the Internal Revenue Service the company's taxable income.

D) Indicate to investors in a particular company the current market values of their investments.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

47) The principal difference between management accounting and financial accounting is that *financial accounting* information is:

A) Prepared by managers.

B) Intended primarily for use by decision makers outside the business organization.

C) Prepared in accordance with a set of accounting principles developed by the Institute of Certified Management Accountants.

D) Oriented toward measuring solvency rather than profitability.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

48) Which financial statement is prepared as of a specific date?

A) The balance sheet

B) The income statement

C) The statement of cash flows

D) The balance sheet, income statement, and statement of cash flows are all for a period of time rather than at a specific date.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

49) In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a management accounting report is *more* likely to:

A) Be used by decision makers outside of the business organization.

B) Focus upon the operation results of the most recently completed accounting period.

C) View the entire organization as the reporting entity.

D) Be tailored to the specific needs of an individual decision maker.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

50) Which of the following decision makers is *least* likely to be among the users of management accounting reports developed by Sears Roebuck and Co.?

A) The chief executive officer of Sears.

B) The manager of the Automotive Department in a Sears' store.

C) The manager of a mutual fund considering investing in Sears' common stock.

D) Internal auditors within the Sears organization.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

51) Which financial statement is primarily concerned with reporting the financial position of a business at a particular time?

A) The balance sheet.

B) The income statement.

C) The statement of cash flows.

D) Consolidated statement of stockholders' equity.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

52) Financial statements are prepared:

A) Only for publicly owned business organizations.

B) For corporations, but not for sole proprietorships or partnerships.

C) Primarily for the benefit of persons outside of the business organization.

D) In either monetary or nonmonetary terms, depending upon the need of the decision maker.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

53) Financial statements may be prepared for which time period?

A) One year. B) Less than one year.

C) More than one year. D) Any time period.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

54) Which of the following is generally *not* considered an external user of accounting information?

A) Stockholders of a corporation. B) Bank lending officers.

C) Financial analysts. D) Factory managers.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

55) Although accounting information is used by a wide variety of external parties, financial reporting is primarily directed toward the informational needs of:

A) Investors and creditors.

B) Government agencies such as the Internal Revenue Service.

C) Customers.

D) Trade associations and labor unions.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

56) Investors may be described as:

A) Individuals and enterprises that have provided credit to a reporting entity.

B) Individuals and enterprises that have ownership interest in a reporting entity.

C) Anyone with an interest in the results of the operations of the reporting entity.

D) Those whose primary economic activity consists of buying and selling stocks and bonds.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

57) Of the following objectives of financial reporting, which is the *most* specific?

A) Provide information useful in assessing amount, timing, and uncertainty of future cash flows.

B) Provide information useful in making investment and credit decisions.

C) Provide information about economic resources, claims to resources, and changes in resources and claims.

D) Provide information useful to help the enterprise achieve its goals, objectives, and mission.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

58) Investors and creditors are interested in the probability that their original investment or loan will eventually be returned, and that they will receive a reasonable return while their funds are invested or borrowed. These expectations are collectively referred to as:

A) Expected profitability. B) The objectives of financial reporting.

C) Cash flow prospects. D) Financial position.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

59) A complete set of financial statements for Citywide Company, at December 31, 2018, would include each of the following, *except*:

A) Balance sheet as of December 31, 2018.

B) Income statement for the year ended December 31, 2018.

C) Statement of projected cash flows for 2019.

D) Notes containing additional information that is useful in interpreting the financial statements.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

60) The general purpose financial statements prepared annually by a corporation would *not* include the:

A) Balance sheet. B) Income tax return.

C) Income statement. D) Statement of cash flows.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

61) Which of the following is a characteristic of financial accounting information?

A) Its preparation requires judgment.

B) It is more about the future than it is about the past.

C) None of it is based on estimates, assumptions, and judgments.

D) Notes and explanations from management are not included.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

62) Which of the following statements is considered a "snapshot" of the business in financial or dollar terms?

A) Statement of financial position. B) Statement of cash flows.

C) Income statement. D) The federal income tax return.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

63) Objectives of financial reporting to external investors and creditors include preparing information about all of the following *except*:

A) Information used to determine which products to produce.

B) Information about economic resources, claims to those resources, and changes in both resources and claims.

C) Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.

D) Information that is useful in making investment and credit decisions.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

64) Financial accounting information is characterized by all of the following *except*:

A) It is historical in nature.

B) It results from inexact and approximate measures.

C) It is factual, so it does not require judgment to prepare.

D) It is enhanced by management's explanation.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

65) It is the function of management accounting to perform the following activities, *except*:

A) Create financial forecasts. B) Perform cost accounting.

C) Complete internal audits. D) Audit financial statements.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

66) All of the following are characteristics of management accounting, *except*:

A) Reports are used primarily by insiders rather than by persons outside of the business entity.

B) Its purpose is to assist managers in planning and controlling business operations.

C) Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.

D) Information may be tailored to assist in specific managerial decisions.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

67) Internal users of financial accounting information include all of the following *except*:

A) Investors. B) Managers.

C) Chief Financial Officer. D) Chief Executive Officer.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

68) Which of the following is *not* a user of internal accounting information?

A) Store manager B) Chief executive officer

C) Creditor D) Chief financial officer

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

69) Characteristics of internal accounting information include all of the following *except*:

A) It is audited by a CPA. B) It must be timely.

C) It is generally oriented toward the future. D) It measures efficiency and effectiveness.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic:

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Analytical Thinking

70) Which of the following is *not* an important factor in ensuring the integrity of accounting information?

A) Institutional factors, such as standards for preparing information.

B) Professional organizations, such as the American Institute of CPAs.

C) Competence, judgment, and ethical behavior of individual accountants.

D) The cost of preparing the financial information.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Ethics

71) Generally accepted accounting principles:

A) Are based on official decrees only.

B) Are based on tradition only.

C) Are based on an accountant's experience only.

D) May change over time.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Analytical Thinking

72) The Sarbanes-Oxley Act of 2002 created:

A) The Security and Exchange Commission.

B) The Financial Accounting Standards Board.

C) The Public Company Accounting Oversight Board.

D) The Income Tax Return Overview Board.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Ethics

73) Overseeing a company's affairs to ensure that the company is managed with the best interest of shareholders in mind is called:

A) Internal control. B) Financial integrity.

C) Corporate governance. D) The audit function.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Ethics

74) The basic purpose of an audit is to:

A) Assure outsiders that financial statements are prepared in conformity with GAAP.

B) Provide as much useful information to decision makers as possible, regardless of cost.

C) Record changes in the financial position of an organization by applying the concepts of double entry accounting.

D) Meet an organization's need for accounting information as efficiently as possible.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Analytical Thinking

75) Audits of financial statements are performed by:

A) The controller of the reporting company.

B) The Financial Accounting Standards Board (FASB).

C) The management of the reporting company.

D) Independent certified public accountants (CPAs).

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Ethics

76) The auditor's report on the published financial statements of a large corporation should be viewed as:

A) The opinion of independent experts as to the overall fairness of the statements.

B) The opinion of the corporation's chief accountant as to the overall fairness of the statements.

C) A guarantee by a firm of certified public accountants that the statements are accurate.

D) A guarantee by the Financial Statements Insurance Board that the statements do not overstate assets or net income.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Ethics

77) The set of standards, assumptions, and concepts that form the "ground rules" for financial reporting in the United States is termed:

A) The conceptual framework.

B) Generally accepted accounting principles.

C) Statements of Financial Accounting Concepts.

D) American standards for certified public accountants.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

78) The basic purpose of generally accepted accounting principles is to:

A) Minimize the possibility of a business becoming insolvent.

B) Provide a framework for financial reporting that is understood by both the preparers and the users of financial statements.

C) Ensure that financial statements include the type of information that is best suited to every type of business decision.

D) Eliminate the need for professional judgment in preparing financial statements.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Analytical Thinking

79) Establishing international accounting standards is the responsibility of:

A) AICPA. B) IASB. C) SEC. D) AAA.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

80) Generally accepted accounting principles are intended to assist accountants in preparing financial statements that:

A) Are relevant, verifiable, comparable, and understandable.

B) Show the business to be both solvent and profitable.

C) Comply with all income tax rules and regulations.

D) Are ideally suited to the specific needs of each user of the financial statements.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

81) Which of the following is *not* an objective of generally accepted accounting principles?

A) To minimize the amount of income taxes owed.

B) To ensure that both preparers and users of financial statements understand the concepts and assumptions used in presenting information within these statements.

C) To enhance the relevance and verifiability of information contained in financial statements.

D) To increase the comparability of financial statements prepared by different companies.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

82) In the phrase "generally accepted accounting principles," the words *accounting principles* refers to:

A) The standards, assumptions, and concepts that serve as "ground rules" for financial reporting.

B) Ethical standards that prohibit fraudulent or misleading financial reporting.

C) The steps in the accounting cycle.

D) The accounting practices authorized by the Financial Accounting Standards Board (FASB).

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Communication

83) The accounting standards and concepts used in the preparation of financial statements are called:

A) Certified principles of accounting (CPA).

B) Generally accepted accounting principles (GAAP).

C) Federal accounting standards and bylaws (FASB).

D) Standards enforcing consistency (SEC).

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

84) Generally accepted accounting principles are the "ground rules" used in the preparation of:

A) Income tax returns.

B) All accounting reports.

C) Reports to federal and state regulatory agencies.

D) Financial statements.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

85) The Financial Accounting Standards Board is:

A) Responsible for the review and audit of federal income tax returns.

B) Primarily concerned with the preparation of the annual federal budget.

C) A private group that conducts research and determines generally accepted accounting principles.

D) A government agency with legal authority to approve or disapprove the financial statements of corporations that sell their securities to the public.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB:

86) The Accounting Standards Codification was developed by:

A) The Financial Accounting Standards Board.

B) Certified public accountants.

C) The Securities and Exchange Commission.

D) The Internal Revenue Service.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

87) The body created by the Sarbanes Oxley Act and charged with oversight of the accounting profession is the:

A) Public Company Accounting Oversight Board.

B) Auditing Standards Board.

C) International Accounting Standards Board.

D) Securities and Exchange Commission.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Ethics

88) The measures used by an organization to provide reasonable assurance that the organization produces reliable financial reports, complies with applicable laws and regulations, and conducts its operations in an efficient and effective manner are collectively referred to as:

A) Generally accepted accounting principles. B) Financial accounting standards.

C) Securities and exchange regulations. D) The internal control structure.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Accounting Systems; Integrity of Accounting Information

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.; 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB:

89) In 2012 the SEC issued an extensive report regarding the use of IFRS by U.S. public companies and listed which of the following as a major obstacle to adopting IASB standards?

A) IASB standards are generally viewed as low quality.

B) IASB is dependent on funding from the major accounting firms.

C) Cross-border financing is decreasing in popularity.

D) The IASB is not a governmental agency, and therefore it is not positioned to develop accounting standards.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

90) The basic purpose of audited financial statements is to:

A) Provide the reporting company with assurance that all assets are protected from theft or embezzlement.

B) Prepare financial statements for companies that do not have their own accounting departments.

C) Provide users of the financial statements with assurance that the statements are verifiable and are presented in conformity with generally accepted accounting principles.

D) Provide both the reporting company and the users of the statements with a written guarantee that the statements are error-free.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Communication

91) The FASB takes on a responsibility to do the following, *except*:

A) Set the objectives of financial reporting.

B) Describe the elements of financial statements.

C) Judge disputes between management and the CPA.

D) Determine the criteria for deciding what information to include in financial statements.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB:

92) Which of the following is *not* recognized as a source of generally accepted accounting principles?

A) Widespread and long-term use of a particular practice.

B) The Financial Accounting Standards Board (FASB).

C) TheSecurities and Exchange Commission (SEC).

D) Statements of the Committee of Sponsoring Organizations (COSO).

Answer: D

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Understand

AACSB: Communication

93) In the phrase "generally accepted accounting principles," the words *generally accepted* mean that the principles:

A) Have been adopted by Congress or approved by the voters in a general election.

B) Are acceptable to the Internal Revenue Service.

C) Are understood and observed by all the participants in the financial reporting process.

D) Have been approved by a majority of the members of the Financial Accounting Standards Board.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Communication

94) Which of the following has the *least* impact upon the integrity of financial statements issued by publicly owned corporations?

A) Federal securities laws.

B) Professional judgment of the accountants who prepare the financial statements.

C) Audits of the financial statements by the Internal Revenue Service.

D) Competence and integrity of the CPAs who perform audits.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Communication

95) Which of the following is *true*?

A) The existence of generally accepted accounting principles (GAAP) virtually eliminates the need for professional judgment except in very unusual circumstances.

B) Federal securities laws regarding the issuance of misleading financial statements apply not only to the independent auditors, but to management of the company as well.

C) Attaining a passing score on the part of the Uniform CPA Examination that covers professional ethics is evidence of integrity and commitment to ethical conduct.

D) A professional accountant should resign his position rather than become involved in the distribution of financial statements indicating insolvency.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Integrity of Accounting Information; Competence, Judgment, and Ethical Behavior

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Understand

AACSB: Ethics

96) Which organization best serves the professional needs of a CPA?

A) FASB. B) AICPA. C) SEC. D) AAA.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Professional Organizations

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Understand

AACSB: Analytical Thinking

97) An accounting principle must receive substantial authoritative support to qualify as generally accepted. Among the organizations and agencies that have been influential in the development of generally accepted accounting principles, which of the following has provided the *most* influential leadership?

A) Internal Revenue Service. B) Institute of Management Accountants.

C) Financial Accounting Standards Board. D) New York Stock Exchange.

Answer: C

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Professional Organizations

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Understand

AACSB: Communication

98) The American Institute of Certified Public Accountants has a code of professional conduct that expresses the accounting profession's recognition of its responsibilities to all of the following *except*:

A) The public. B) The client. C) Colleagues. D) The IRS.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Competence, Judgment, and Ethical Behavior

Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Remember

AACSB: Ethics

99) The work of accountants practicing in public accounting may best be described as:

A) Providing various types of accounting services to a wide variety of clients.

B) Preparing income tax returns for individuals and small businesses.

C) Developing and interpreting information tailored to the needs of business managers.

D) Helping governmental agencies carry out their various regulatory responsibilities.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 2

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Understand

AACSB: Communication

100) The primary function of external auditors is to:

A) Express an opinion on the fairness of the company's financial statements.

B) Determine the accuracy of the management reports.

C) Evaluate the efficiency of operations and the degree of compliance with management's policies in all departments within a large organization.

D) Determine that financial statements and all special reports to management are prepared in conformity with generally accepted accounting principles.

Answer: A

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Analytical Thinking

101) Management accountants primarily are concerned with developing information:

A) For use in income tax returns.

B) Suited to the needs of stockholders, creditors, and other external decision makers.

C) In conformity with generally accepted accounting principles.

D) Suited to the needs of decision makers within the organization.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Analytical Thinking

102) The designation of CPA is given by:

A) Universities. B) States. C) The AICPA. D) The SEC.

Answer: B

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Ethics

103) One of the principal functions of CPAs is to:

A) Audit income tax returns to determine if taxpayers have underpaid their income taxes.

B) Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.

C) Advise individual investors on stock market investments.

D) Perform audits to determine the fairness of a company's financial statements.

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Analytical Thinking

104) The SEC requires corporate officers to sign the Form 10-K, which is filed annually with the SEC. Which of the following officers is *not* among those required to sign?

A) CEO (Chief Executive Officer). B) CAO (Chief Accounting Officer).

C) CFO (Chief Financial Officer). D) COO (Chief Operating Officer).

Answer: D

Explanation: A)

B)

C)

D)

Diff: 1

Topic: Careers in Accounting

Learning Objective: 01-08 Describe various career opportunities in accounting.

Bloom's: Remember

AACSB: Analytical Thinking

105) Accounting terminology

Listed below are nine accounting terms introduced in this chapter:



Each of the following statements may (or may not) describe one of these terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms. More than one statement may describe a single term.

(A.) The repayment to an investor of the amount originally invested in an enterprise.

(B.) An examination of financial statements designed to determine their fairness in relation to generally accepted accounting principles.

(C.) The accounting standards and concepts used in the preparation of financial statements.

(D.) A system of measures designed to assure management that all aspects of the business are operating according to plan.

(E.) A listing of assets, liabilities, and stockholders' equity as of a specific date.

(F.) The payment of an amount for using another's money.

(G.) An activity statement that shows the details of the company's activities involving cash during a period of time.

Answer: (A.) Return of investment; (B.) Audit; (C.) Generally accepted accounting principles; (D.) Internal control structure; (E.) Balance sheet; (F.) Return on investment; (G.) Statement of cash flows

Explanation:

Diff: 1

Topic: Accounting Information: A Means to an End; Accounting Systems; Financial Accounting Information; Management Accounting Information; Integrity of Accounting Information

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions; 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control; 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information; 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Analytical Thinking

106) Users of accounting information

List seven groups that would typically use financial information.

Answer: 1. Investors; 2. Creditors; 3. Managers; 4. Owners; 5. Customers; 6. Employees; 7. Regulators.

Diff: 2

Topic: Financial Accounting Information; Topic: Management Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

107) Accounting Terminology

Listed below are 8 accounting terms.



Each of the following statements may (or may not) describe one of these terms. In the space provided, indicate the accounting term described or answer "None" if the statement does not accurately describe any of the terms.

(A.) Information describing the financial resources, obligations, and activities of an economic entity.

(B.) An entity's financial resources and obligations at a point in time.

(C.) Accounting information intended specifically to assist company's management.

(D.) The personnel, procedures, and technology used by an organization to develop accounting information and to communicate this information to decision makers.

(E.) An entity's financial activities during the year.

(F.) Measures used by an organization to guard against errors, waste, and fraud and to assure the reliability of accounting information.

(G.) A plan of financial operations for some future period.

(H.) A written assertion identifying, measuring, and communicating financial information about an economic entity.

Answer: (A) Financial Accounting

(B) Financial Position

(C) Management Accounting

(D) Accounting System

(E) Results of Operations

(F) Internal Controls

(G) None (Describes a forecast)

(H) Financial Statements

Explanation:

Diff: 2

Topic: Accounting Information: A Means to an End; Accounting Systems; Financial Accounting Information; Management Accounting Information; Integrity of Accounting Information

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions; 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control; 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information; 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Remember

AACSB: Analytical Thinking

108) Financial statements

Briefly describe the balance sheet, the income statement, and the statement of cash flows.

Answer: Balance sheet (statement of financial position) — A position statement that shows where the company stands in financial terms at a specific date.

Income statement — An activity statement that shows details and results of a company's profit-related activities for a period of time.

Statement of cash flows — An activity statement that shows the details of the company's activities involving cash during a period of time.

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

109) Objectives of financial reporting

List and briefly describe the objectives of financial reporting beginning with the most general and ending with the most specific.

Answer: (1.) Provide information useful in making investment and credit decisions.

(2.) Provide information useful in assessing the amount, timing, and uncertainty of future cash flows.

(3.) Provide information about economic resources, claims to economic resources, and changes in resources and claims.

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

110) Financial and management accounting information

Explain one way in which the characteristics of financial and management accounting information differ.

Answer: Financial accounting information is primarily historical in nature, while management accounting information is future-oriented.

Financial accounting information is general purpose information designed to serve the needs of a variety of external parties. Management accounting information is customized to the needs of a particular internal decision-maker.

The timeliness of management accounting information is critical. For financial accounting information completeness and verifiability are more important than timeliness.

Financial accounting information is prepared in accordance with generally accepted accounting principles while the nature and content of management accounting information is dictated by the nature of the decision it is intended to support.

Diff: 2

Topic: Financial Accounting Information; Management Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.; 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Communication

111) Investors and creditors are interested in a company's "*cash flow prospects*."What two specific concerns of investors and creditors are summarized by the term "*cash flow prospects*?"

Answer: Return of investment and return on investment.

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

112) List the three financial statements that are used to communicate financial accounting information to interested external parties.

Answer: Balance sheet (Statement of financial position)

Income statement

Statement of cash flows

Diff: 1

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Remember

AACSB: Communication

113) Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

Answer: To account for the use of long-lived equipment, estimates must be made of the lifetime and scrap value of that equipment.

Diff: 2

Topic: Financial Accounting Information

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Bloom's: Understand

AACSB: Analytical Thinking

114) Development of generally accepted accounting principles

(A.) What is meant by the phrase "generally accepted accounting principles"?

(B.) Give the names of three organizations that currently play an active role in the development of accounting principles in the United States.

Answer: (A.) Generally accepted accounting principles provide the framework for determining what information is to be included in the financial statements and how that information is to be presented.

(B.) Financial Accounting Standards Board; Securities and Exchange Commission; American Institute of CPAs; American Accounting Association.

Diff: 2

Topic: Integrity of Accounting Information; Professional Organizations

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.; 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Understand

AACSB: Communication

115) Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.

Answer: Integrity refers to the qualities of completeness, honestly, and sincerity. GAAP provides the general framework for determining what information is included in financial statements and how this information is to be prepared and presented. This ensures that financial statements are prepared in accordance with standards that are understood by both preparers and users of the information.

Difficulty: 2 Medium

Diff: 0

Topic: Integrity of Accounting Information

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Bloom's: Understand

AACSB: Communication

116) Match the organizations on the left with the descriptions on the right. Each description should be used only once.

|  |  |
| --- | --- |
| Organization | Description |
| \_\_\_\_\_\_\_\_ Financial Accounting Standards Board | a. Government agency that regulates financial reporting by publicly-held companies |
| \_\_\_\_\_\_\_\_ Securities and Exchange Commission | b. International organization dedicated to the advancement of internal auditing |
| \_\_\_\_\_\_\_\_ American Accounting Association | c. Private organization most directly involved in the development and issuance of accounting standards |
| \_\_\_\_\_\_\_\_ Institute of Internal Auditors | d. Organization dedicated to the advancement of accounting education and research |
| \_\_\_\_\_\_\_\_ Public Company Accounting Oversight Board | e. Organization most involved with the ethical conduct of the accountants working within a company |
| \_\_\_\_\_\_\_\_ Institute of Management Accountants | f. Organization which develops formal standards for auditing in the United States |
| \_\_\_\_\_\_\_\_ Internal Revenue Service | g. A governmental agency that handles income tax returns of individuals and businesses and performs an audit function to verify the data presented |

Answer: Financial Accounting Standards Board (c)

Securities and Exchange Commission (a)

American Accounting Association (d)

Institute of Internal Auditors (b)

Public Company Accounting Oversight Board (f)

Institute of Management Accountants (e)

Internal Revenue Service (g)

Explanation:

Diff: 1

Topic: Professional Organizations

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Bloom's: Remember

AACSB: Analytical Thinking

117) AICPA Code of Professional Conduct

State and discuss the six articles of the AICPA Code of Professional Conduct that guide members in performing their professional responsibilities.

Answer: (I.) Responsibilities — members should exercise sensitive professional and moral judgments in all their activities.

(II.) The Public Interest — members should act in a way that will serve the public interest.

(III.) Integrity — members should perform all professional responsibilities with the highest sense of integrity.

(IV.) Objectivity and Independence — members should maintain objectivity and be free of conflicts of interest.

(V.) Due Care — members should observe the profession's technical and ethical standards.

(VI.) Scope and Nature of Services — members should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

Diff: 2

Topic: Professional Organizations; Competence, Judgment, and Ethical Behavior

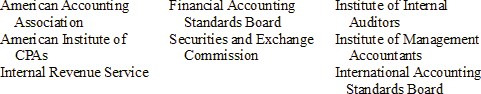
Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.; 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Understand

AACSB: Ethics

118) Accounting terminology

Listed below are seven accounting organizations introduced in this chapter:



Each of the following statements may (or may not) describe one of these organizations. In the space provided below each statement, indicate the accounting organization described, or answer "None" if the statement does not correctly describe any of the organizations.

(A.) Private sector organization that establishes accounting standards.

(B.) A professional organization that establishes standards for the conduct of professional services other than audits.

(C.) A government organization that establishes financial reporting requirements for publicly-held companies in the United States.

(D.) A federal government agency that audits many other agencies of the federal government and reports its findings to Congress.

(E.) A professional organization dedicated to the improvement of accounting education, research, and practice.

(F.) A professional organization that influences the concepts and ethical practice of management accounting.

(G.) A professional organization that establishes global accounting standards.

Answer: (A.) Financial Accounting Standards Board; (B.) American Institute of CPAs; (C.) Securities and Exchange Commission; (D.) None (The statement describes the General Accounting Office); (E.) American Accounting Association; (F.) Institute of Management Accountants (G.) International Accounting Standards Board

Explanation:

Diff: 1

Topic: Professional Organizations; Competence, Judgment, and Ethical Behavior

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.; 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

Bloom's: Remember

AACSB: Analytical Thinking