

*Test Bank for Accounting-What the
Numbers Mean 13th Edition by
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CORRECT ANSWERS ARE
LOCATED IN THE 2ND HALF OF
THIS DOC.

**MULTIPLE CHOICE - Choose the one
alternative that best completes the
statement or answers the question.**

- 1) Which of the following entities would **not** require accounting information pertaining to their economic activities?
 - A) Social clubs
 - B) Not-for-profit entities
 - C) State governments
 - D) Small businesses
 - E) All of these entities require accounting information.
- 2) The authoritative financial accounting standards-setting body in the United States is presently the:
 - A) Public Company Accounting Oversight Board (PCAOB)
 - B) Financial Accounting Standards Board (FASB)
 - C) Accounting Principles Board (APB)
 - D) Securities and Exchange Commission (SEC)
 - E) International Accounting Standards Board (IASB)
- 3) Which of the following statements about the Financial Accounting Standards Board is correct?
 - A) The FASB follows a due process procedure that permits input from interested parties before an Accounting Standards Update (ASU) is issued.
 - B) The FASB is controlled by the American Institute of CPAs.
 - C) The FASB is an agency of the Federal government.
 - D) The FASB has the authority to fine a noncompliant firm.
- 4) Major classifications of accounting activity would **not** include:
 - A) financial accounting, internal auditing, public accounting.
 - B) internal auditing, governmental accounting, managerial accounting.
 - C) financial accounting, national accounting, cost accounting.
 - D) auditing, income tax accounting, governmental accounting.

- 5) Which of the following is **not** an example of a decision or informed judgment that a potential investor would make from accounting information?
- A) A forecast of dividends
 - B) Assessment of risk that a company may have more debt than it can repay if the economy enters a recession
 - C) Future profitability based on past profitability
 - D) Probability of success of a new product development
- 6) Which of the following is **not** an example of a decision or informed judgment that a potential employee could make from accounting information?
- A) The extent of the company's commitment to a research program
 - B) Personnel turnover statistics (i.e., hiring and terminations)
 - C) Probability of the company's ability to make profit sharing plan contributions in the future
 - D) Assessment of the risk that the company may become bankrupt in the near future
- 7) Which of the following are qualified to express an auditor's opinion about an entity's financial statements?
- A) A Comptroller
 - B) A Certified Management Accountant
 - C) A Certified Internal Auditor
 - D) A Certified Public Accountant
- 8) Which classification of accounting is most concerned with the use of economic and financial information to plan and control many of the activities of the entity?
- A) Financial accounting
 - B) Auditing / Public accounting
 - C) Managerial accounting
 - D) Income tax accounting
- 9) An unqualified auditors' opinion about an entity's financial statements:
- A) is a clean bill of health.
 - B) means that all of the entity's transactions during the audited period were checked out.
 - C) guarantees that the entity was not involved in or the victim of any fraudulent activities during the audited period.
 - D) states that they are presented in conformity with accounting principles generally accepted in the United States.

- 10) Cost accounting is a subset of which of the following?
- A) Cost analysis
 - B) Managerial accounting
 - C) Internal auditing
 - D) Public auditing
- 11) The officer of a corporation responsible for the firm's published financial statements would be most concerned about pronouncements of the:
- A) FASB.
 - B) AICPA.
 - C) GASB.
 - D) SEC.
 - E) IRS.
- 12) Which of the following is *not* a characteristic or limitation of the kind of information that financial reporting by business enterprises can provide?
- A) The information results in approximate, rather than exact, measures.
 - B) The information largely reflects the financial effects of transactions that have already taken place.
 - C) The information is provided and used at a cost.
 - D) All of the answers are characteristics or limitations of the kind of information that financial reporting by business enterprises can provide.
- 13) The ethical concept of independence means that an accountant employed:
- A) by a corporation cannot prepare financial statements for use by the company's bank.
 - B) by one company cannot work part-time for another company.
 - C) by an auditing firm cannot own any stock in the company being audited.
 - D) by one company cannot accept a job with another company in the same industry.
- 14) The objectives of financial reporting for nonbusiness enterprises:
- A) have more of an internal utilization rather than external reporting focus.
 - B) do not give consideration to the cost of providing information.
 - C) are exactly the same as those for business enterprises.
 - D) focus on providing information for resource providers, rather than investors.

15) The ethical concept of integrity means that an individual must:

- A) attempt to be honest and forthright in dealings and communications with others.
- B) sign a pledge to abide by all laws and regulations.
- C) report to a supervisor any violation of the code of conduct of her company that is observed.
- D) read, understand, and agree to follow all provisions of her employer's code of conduct.

16) Which of the following is an objective of financial reporting by business enterprises?

- A) Financial reporting should provide assurance that all liabilities of business enterprises will be paid.
- B) The primary focus of financial reporting is information about the assets of the entity.
- C) Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and changes in those resources and claims to them.
- D) Financial reporting should show the timing and amount of future cash dividends to potential investors.

17) Which of the following is **not** true about the International Accounting Standards Board (IASB)?

- A) The IASB is the authoritative accounting standards setting body for all member nations of the United Nations.
- B) The IASB has been working with the FASB in recent years to attempt to achieve convergence of International Financial Reporting Standards (IFRS) and U.S. GAAP.
- C) The goal of the IASB is to develop a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards based upon clearly articulated principles.
- D) The IASB's approach to accounting standard setting leans more toward defining broad principles that companies must follow, as opposed to the FASB's approach which tends to define detailed rules that companies must follow.

18) The Public Company Accounting Oversight Board (PCAOB) has the authority to set and enforce standards for public companies related to:

- A) Auditing.
- B) Attestation.
- C) Quality control.
- D) Ethics (including independence).
- E) All of the answers are correct.

19) Accounting can be defined as:

- A) the process of preparing and auditing an entity's financial statements.
- B) the process of identifying, measuring, and communicating economic information about an organization for the purpose of making decisions and informed judgments.
- C) the process of communicating the financial results of corporate activities to investors and regulatory bodies.
- D) the process of planning, controlling, and evaluating financial performance, and supporting the management decision-making process.

20) Over the years, the Securities and Exchange Commission (SEC) has delegated its statutory authority to establish accounting standards for publicly traded companies in the United States. This delegated authority impacted which of the following organizations?

- A) The Committee on Accounting Procedures of the American Institute of Accountants.
- B) The Accounting Principles Board (APB).
- C) The Financial Accounting Standards Board (FASB).
- D) None of these organizations were ever delegated authority by the SEC to establish accounting standards in the United States.
- E) Each of these organizations were at one time or another delegated authority by the SEC to establish accounting standards in the United States.

21) Which of the following was **not** one of the reasons for the FASB's decision to undertake the Conceptual Framework project?

- A) To provide a structure or framework of financial accounting concepts.
- B) To describe concepts that will underlie guidance on future accounting practices and in due course serve as a basis for evaluating existing guidance and practices.
- C) To provide detailed, industry-specific authoritative guidance for the accounting and financial reporting of complex business transactions.
- D) To facilitate the FASB's efforts in developing accounting and reporting guidance by providing a common foundation and basic reasoning on which to consider merits of alternatives.

22) The first formal accounting standard setting activity in the United States began:

- A) during the Industrial Revolution in the mid-19th century in response to the need to protect the financial interests of absentee owners of corporations.
- B) during the late 19th century when British accounting standards were imposed on U.S. publicly-traded companies wishing to attract British capital.
- C) in the early 1930s when the American Accounting Institute (AIA) and the New York Stock Exchange (NYSE) agreed on five broad principles of accounting.
- D) in the early 1930s when the Securities and Exchange Commission (SEC) delegated its statutory authority to regulate U.S. accounting standards to the Financial Accounting Standards Board (FASB).

23) Accrual accounting:

- A) eliminates the need to record most of a company's liabilities.
- B) accounts for the economic effects of transactions when cash receipts or cash payments take place rather than when the resulting revenues are earned or expenses are incurred.
- C) is used for financial reporting purposes because it measures of a company's past earnings performance more accurately than does cash basis accounting.
- D) rarely if ever involves the use of estimates.

24) Financial reporting:

- A) is designed primarily for internal planning, control, and decision-making purposes.
- B) includes detailed notes and other disclosures about a company's past performance.
- C) is designed primarily to meet the needs of banks, taxing authorities, and other Governmental regulatory bodies such as the SEC.
- D) is future oriented in nature, with detailed disclosures about a company's operating plans to allow investors to make accurate earnings projections.

25) Major classifications of accounting activity include all of the following *except*:

- A) financial accounting
- B) internal auditing
- C) international accounting
- D) governmental accounting

26) Major classifications of accounting activity include all of the following *except*:

- A) auditing / public accounting
- B) financial accounting
- C) managerial accounting
- D) shareholder accounting

27) Which of the following is a characteristic or limitation of the kind of information that financial reporting by business enterprises can provide?

- A) The information results in exact, rather than approximate, measures.
- B) The information largely reflects the financial effects of transactions that will take place within the next 12 months.
- C) Financial reporting is done for individual firms, or entities, rather than for industries or the economy as a whole.
- D) Financial reporting, although influenced by the past, is primarily future oriented.

28) Which of the following is an objective of financial reporting by business enterprises?

- A) Financial reporting should provide assurance that all assets of business enterprises are reported at their approximate liquidation values.
- B) The primary focus of financial reporting is information about the cash flows and liabilities of the entity.
- C) Financial reporting should show the timing and amount of future cash dividends to potential investors.
- D) Financial reporting should provide information to help users assess the relative strengths and weaknesses of a firm's financial position.

29) Which of the following is **not** true about the International Accounting Standards Board (IASB)?

- A) The IASB has been working with the FASB in recent years to attempt to achieve convergence of International Financial Reporting Standards (IFRS) and U.S. GAAP.
- B) The goal of the IASB is to develop a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards based upon clearly articulated principles.
- C) The IASB's approach to accounting standard setting leans more toward defining broad principles that companies must follow, as opposed to the FASB's approach which tends to define detailed rules that companies must follow.
- D) All of the above are true concerning the IASB.

30) The Public Company Accounting Oversight Board (PCAOB) has the authority to set and enforce standards for public companies related to all of the following **except**:

- A) Auditing.
- B) Attestation.
- C) Budgeting.
- D) Quality control.
- E) Ethics (including independence).

31) Accrual accounting:

- A) rarely if ever involves the use of estimates.
- B) eliminates the need to record most of a company's liabilities.
- C) accounts for the economic effects of transactions when cash receipts or cash payments take place rather than when the resulting revenues are earned or expenses are incurred.
- D) accounts for the effect of an economic activity, or transaction, on an entity when the activity has occurred, rather than when the cash receipt or payment takes place.

32) Financial reporting:

- A) is designed primarily for internal planning, control, and decision-making purposes.
- B) is designed primarily to meet the needs of banks, taxing authorities, and other Governmental regulatory bodies such as the SEC.
- C) is aimed primarily at meeting the needs of external users of accounting information, such as investors, creditors, and financial advisors, who would not otherwise have access to the firm's records.
- D) is future oriented in nature, with detailed disclosures about a company's operating plans to allow investors to make accurate earnings projections.

- 33) The first known text to describe a comprehensive double-entry bookkeeping system was published in 1494:
- A) By Gadifer de La Salle, a French explorer, and was referred to as the “Method of Paris” system.
 - B) By Luca Pacioli, a Franciscan monk and mathematics professor, and was referred to as the “Method of Venice” system.
 - C) By Paco DeLucia, co-authored by Al DiMeola and John McLaughlin, and was referred to as the “Method of San Francisco” system.
 - D) By Christopher Columbus, and was referred to as the “Method of the Americas” system.

- 34) The first known text to describe the “Method of Venice” comprehensive double-entry bookkeeping system was published in 1494 by the Franciscan monk and mathematics professor:
- A) Marco Polo
 - B) Leonardo da Vinci
 - C) Luca Pacioli
 - D) Valentino Rossi

Answer Key

Test name: Chapter 01

- 1) E
- 2) B
- 3) A
- 4) C
- 5) D
- 6) B
- 7) D
- 8) C
- 9) D
- 10) B
- 11) A
- 12) D
- 13) C
- 14) D
- 15) A
- 16) C
- 17) A
- 18) E
- 19) B
- 20) E
- 21) C
- 22) C
- 23) C
- 24) B
- 25) C
- 26) D
- 27) C
- 28) D
- 29) D
- 30) C
- 31) D
- 32) C
- 33) B
- 34) C