

*Test Bank for Understanding Financial
Accounting Canadian Edition 4th
Edition by Burnley*

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Understanding Financial Accounting, 4Ce (Burnley)
Chapter 1 Overview of Corporate Financial Reporting

TRUE-FALSE STATEMENTS

1) Decision makers are often referred to as users of the financial statements and include investors and creditors.

Answer: TRUE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.

CPA: Financial Reporting

AACSB: Analytic

2) The primary purpose of financial accounting information is to aid users in their economic decision-making relative to the organization.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.

CPA: Financial Reporting

AACSB: Analytic

3) The section of an annual report that contains management's discussion of the company's operating results is referred to as the Statement of Management's Responsibility.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.; Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

4) The shareholders are an example of an internal user of annual report information.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

5) Information contained in the financial statements of a company is of use to both internal and external users.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

6) A private company may have a single shareholder, while a public company may have many shareholders.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

7) A firm's activities can be divided into borrowing, investing, and operating.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Explain the three categories of business activities and identify examples of transactions related to each category.

CPA: Financial Reporting

AACSB: Analytic

8) If an investor owns 10% of the shares of a company, they normally own 10 shares of the company.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Explain the three categories of business activities and identify examples of transactions related to each category.

CPA: Financial Reporting

AACSB: Analytic

9) Dividends are payments made by the company to distribute future profits.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Explain the three categories of business activities and identify examples of transactions related to each category.

CPA: Financial Reporting

AACSB: Analytic

10) A gain or increase in the value of shares is known as capital appreciation.

Answer: TRUE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Explain the three categories of business activities and identify examples of transactions related to each category.

CPA: Financial Reporting

AACSB: Analytic

11) Creditors are entities that lend money to a company rather than buying shares of a company.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Explain the three categories of business activities and identify examples of transactions related to each category.

CPA: Financial Reporting

AACSB: Analytic

12) The financial statements of a company are prepared by the shareholders.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

13) Assets are typically listed in the order of their liquidity on the classified Statement of Financial Position.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

14) Prepaid expenses can be found on the Statement of Income.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

15) The Statement of Financial Position measures cash inflows and outflows of a company over a period of time.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

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AACSB: Analytic

16) Profit is determined by subtracting the income earned during the period from the expenses incurred during the same period.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

17) Income can also include gains that a company generates from sales that are outside their normal course of operations.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

18) Expenses are defined as increases in economic benefits.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

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AACSB: Analytic

19) Gross profit is equal to the sales received from goods less the operating expenses incurred during the period.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

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20) Net earnings is the amount of the company's revenue that remains after all its expenses are accounted for.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

21) Retained earnings are the earnings that have been kept and NOT paid out as dividends.

Answer: TRUE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

22) Liquidity refers to how long something will be received, realized, or consumed.

Answer: FALSE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

23) Canadian companies use a 12-month period to distinguish between items that are current from those that are non-current.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

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24) Working capital measures the company's ability to meet its short-term obligations using its non-current assets.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

25) Deferred revenue represents customer deposits.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

26) Shareholders' equity is often referred to as the net assets of the company.

Answer: TRUE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

27) Share capital records the amount that investors have received in the form of dividends.

Answer: FALSE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

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AACSB: Analytic

28) Companies that are growing normally have negative cash flows from investing activities.

Answer: TRUE

Diff: 1

Bloomcode: Comprehension

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

29) IFRS is the financial reporting standard that must be followed by Canadian public companies.

Answer: TRUE

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

30) The MD&A section of the annual report provides a discussion of the risks facing the company and information about future plans.

Answer: TRUE

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify and explain the content and reporting objectives of the four basic financial statements and the notes to the financial statements.

CPA: Financial Reporting

AACSB: Analytic

MULTIPLE CHOICE QUESTIONS

31) The annual report includes everything, EXCEPT for

A) managerial statements.

B) management discussion and analysis.

C) financial statements.

D) notes to the financial statements.

Answer: A

Diff: 1

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.

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AACSB: Analytic

32) Financial accounting is also referred to as

A) internal reporting.

B) management reporting.

C) external financial reporting.

D) stakeholder reporting.

Answer: C

Diff: 2

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.

CPA: Financial Reporting

AACSB: Analytic

33) In which section of the annual report does management comment on the company and its operating results?

- A) report to the shareholders
- B) management's discussion and analysis
- C) corporate profile
- D) selected financial data

Answer: B

Diff: 2

Bloomcode: Knowledge

Learning Objective: Define financial accounting and understand its relationship to economic decision-making.

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AACSB: Analytic

34) Which of the following is an internal user of the annual report information?

- A) creditors
- B) management
- C) regulators
- D) shareholders

Answer: B

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

35) Who do the shareholders typically elect to represent their interests?

- A) senior management
- B) chief financial officer
- C) board of directors
- D) chief operating officer

Answer: C

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

36) All of the following are external users EXCEPT

- A) labour unions.
- B) management.
- C) regulators.
- D) journalists.

Answer: B

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

37) Those who lend money or otherwise extend credit rather than invest it directly in the company are known as

- A) investors.
- B) regulators.
- C) creditors.
- D) unions.

Answer: C

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

38) Why are regulators NOT interested in financial statements?

- A) Ensuring companies follow federal and provincial financial reporting regulations.
- B) Enforcing stock exchange rules regarding timing and format of financial disclosures.
- C) Helping companies maximize their profits.
- D) Preventing non-compliant companies from trading on stock exchanges.

Answer: C

Diff: 2

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

39) Creditors include which of the following?

- A) suppliers
- B) financial institutions
- C) employees
- D) All of the choices are correct.

Answer: D

Diff: 1

Bloomcode: Knowledge

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.

CPA: Financial Reporting

AACSB: Analytic

40) Privately held corporations

- A) always have multiple shareholders.
- B) always require a board of directors to represent its interests.
- C) raise capital through the sale of shares.
- D) are not traded on the stock market.

Answer: D

Diff: 2

Bloomcode: Comprehension

Learning Objective: Identify the main users of financial accounting information and explain how they use this information.; Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

41) The form of business ownership that most effectively limits the risk of ownership is

- A) sole proprietorship.
- B) general partnership.
- C) corporation.
- D) all forms of business ownership, since they are equally risky.

Answer: C

Diff: 2

Bloomcode: Comprehension

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

42) Jennifer is a university student looking to earn some cash for tuition over the summer months (April-August). She has decided to start a lawn care business, what business structure would best suit her needs?

- A) private corporation
- B) public corporation
- C) general partnership
- D) sole proprietorship

Answer: D

Diff: 2

Bloomcode: Comprehension

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

43) A corporation whose shares are not listed on the stock exchange is referred to as a

- A) proprietorship.
- B) publicly traded corporation.
- C) small business corporation.
- D) privately held corporation.

Answer: D

Diff: 1

Bloomcode: Knowledge

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

44) Businesses can be operated in a number of different forms, such as a

- A) corporation.
- B) partnership.
- C) proprietorship.
- D) All of the choices are correct.

Answer: D

Diff: 1

Bloomcode: Knowledge

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

45) Which statement is INCORRECT with regard to the characteristics of a corporation?

- A) It is a separate legal entity.
- B) It can be sued.
- C) Shareholders liability is limited to their investment.
- D) It cannot be publicly accountable.

Answer: D

Diff: 2

Bloomcode: Knowledge

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

46) Which of the following statements best describes a proprietorship?

- A) A proprietorship can be comprised of single or multiple owners.
- B) The owners are taxed separately from the business.
- C) It is the most expensive business structure to establish.
- D) The owner is responsible for the debt of the company.

Answer: D

Diff: 2

Bloomcode: Knowledge

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic

47) Which of the following statements best describes a partnership?

- A) A partnership is a separate legal entity from its owners.
- B) There is only a single owner.
- C) It is the most expensive business structure to establish.
- D) The owners are responsible for the debt of the company.

Answer: D

Diff: 2

Bloomcode: Knowledge

Learning Objective: Describe the major forms of business organization and explain the key distinctions among them.

CPA: Financial Reporting

AACSB: Analytic