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to accompany

Accounting: business reporting for decision making

7th edition

by
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Chapter 1: Introduction to accounting and business decision making

Learning objectives

1. Explain the process of accounting
Q1, Q2, Q3, Q4, Q5, Q51, Q52
2. Outline the importance of accounting and its role in decision making by various users
Q6, Q7, Q8, Q9, Q10, Q11, Q12, Q13, Q53, Q54
3. Explain the differences between financial accounting and management accounting
Q14, Q15, Q16, Q17, Q18, Q19, Q55, Q56
4. Explain the role of accounting information in the business planning process.
Q20, Q21, Q22, Q23, Q24, Q57, Q58
5. Discuss the globalisation of financial reporting
Q25, Q26, Q59
6. Explain what is meant by digital disruption and how new technology is influencing the profession
Q27, Q60, Q61
7. Describe business sustainability, outline its key drivers and principles and compare key theories in the area
Q28, Q29, Q30, Q31, Q32, Q33, Q34, Q62
8. Describe sustainability reporting and disclosure (including integrated reporting)
Q35, Q36, Q37, Q38, Q39, Q40, Q41, Q42, Q43, Q44, Q45, Q63
9. Provide examples of exciting opportunities for careers in accounting
Q46, Q47 Q48, Q49, Q50, Q64, Q65

Multiple-choice questions

1. Which of the following is *not* a business transaction?
- a. Purchasing inventory
 - b. Incurring interest on a business loan
 - *c. A business owner purchasing a new home
 - d. Receiving cash payment for services provided

Correct answer: c

Learning objective 1.1 ~ Explain the process of accounting

2. Which of the following is *not* an accounting report?
- *a. Statement of employee job satisfaction
 - b. Statement of financial position
 - c. Statement of profit or loss
 - d. Statement of cash flows

Correct answer: a

Learning objective 1.1 ~ Explain the process of accounting

3. The steps in the process of accounting take place in the following order:
- a. measuring, identifying, decision making, communicating.
 - *b. identifying, measuring, communicating, decision making.
 - c. identifying, communicating, measuring, decision making.
 - d. identifying, decision making, measuring, communicating.

Correct answer: b

Learning objective 1.1 ~ Explain the process of accounting

4. Which one of the following is *not* grouped together under property, plant and equipment?
- a. Land
 - b. Vehicles
 - *c. Inventory
 - d. Machinery

Correct answer: c

Learning objective 1.1 ~ Explain the process of accounting

5. At what stage of the accounting process are business transactions analysed, recorded and classified?
- *a. Measuring
 - b. Communicating
 - c. Decision making
 - d. Identifying

Correct answer: a

Learning objective 1.1 ~ Explain the process of accounting

6. A supplier, when considering offering credit to a new customer, is most interested in the customer's:
- *a. ability to pay off debts as they fall due.
 - b. annual dividends.
 - c. taxable income.
 - d. compliance with accounting standards.

Correct answer: a

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

7. The internal user of accounting information is the:
- a. customer.
 - b. local council.
 - c. auditor from the Australian Tax Office.
 - *d. office manager.

Correct answer: d

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

8. The information that would be of most interest to an organisation's production manager is:
- a. the ability to pay off debts as they fall due.
 - b. annual dividends.
 - *c. continuity of orders for the factory.
 - d. the company tax rate.

Correct answer: c

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

9. An external user of accounting information is the:

- a. payroll officer.
- *b. supplier.
- c. production manager.
- d. inventory clerk.

Correct answer: b

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

10. A bank requesting accounting information is looking for:

- a. the amount of tax that should be paid.
- b. cash flows from dividends paid.
- *c. the ability of the entity to repay a loan.
- d. environmental aspects of the business.

Correct answer: c

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

11. Which of these would *not* be considered an internal user of accounting information?

- a. The human resources manager
- *b. The chairman of CPA Australia
- c. The chief financial officer
- d. The purchasing officer

Correct answer: b

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

12. The *Corporations Act 2001* is primarily enforced by the:

- a. Financial Reporting Council.
- b. Australian Securities Exchange.
- c. Australian Accounting Standards Board.
- *d. Australian Securities and Investments Commission.

Correct answer: d

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

13. A disclosing entity is an entity that:
- a. discloses the basis on which their financial reports are prepared.
 - b. is exempt under the *Corporations Act 2001* from applying the AASB accounting standards.
 - c. is involved in the accounting standard-setting process.
 - *d. issues securities that are quoted on a stock market or made available to the public via a prospectus.

Correct answer: d

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

14. Which of the following are differences between management and financial accounting?
- I. Types of reports produced.
 - II. The users of reports.
 - III. The format of reports.
 - IV. Frequency of reports.
- a. I and III only
 - b. II, III and IV only
 - c. I and II only
 - *d. All of the above

Correct answer: d

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

15. Management accounting reports are prepared:
- *a. to provide up-to-date information to managers for decision making.
 - b. to provide information for the shareholders of the business entity.
 - c. based only on historical figures.
 - d. based on GAAP and IASB accounting standards.

Correct answer: a

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

16. The content of management accounting reports is governed by:
- a. the Australian Securities and Investment Commission.
 - b. the *Corporations Act 2001*.
 - c. CPA Australia and Chartered Accountants Australia and New Zealand.
 - *d. there are no specific rules governing the content of management accounting reports.

Correct answer: d

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

17. Which of the following reports would *not* be prepared for financial accounting purposes?
- a. Statement of financial position
 - b. Statement of cash flows
 - *c. Statement of management performance
 - d. Statement of profit or loss

Correct answer: c

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

18. Which of these entities is *least* likely to have users dependent on general purpose financial statements?
- a. An international company operating in the Asia-Pacific region
 - b. A company with a large number of shareholders
 - c. A company listed on the stock exchange
 - *d. A small company whose shareholders also run the business

Correct answer: d

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

19. The term 'general purpose financial statements' refers to the fact that the information conveyed is:
- a. generally reliable.
 - b. useful for general purposes but not for making specific decisions.
 - *c. potentially valuable for a number of users.
 - d. comparable over several accounting periods.

Correct answer: c

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

20. Most businesses are classified as SMEs (small to medium sized enterprises). A small business is a business entity with:
- *a. annual revenue between \$2 million and \$10 million.
 - b. annual revenue less than \$2 million.
 - c. annual revenue between \$2 million and \$250 million.
 - d. annual revenue greater than \$250 million.

Correct answer: a

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

21. Which of the following is *not* a benefit of a business plan?
- a. Provides a formal statement of direction and purpose for the business entity.
 - b. Provides management and employees with a set of clearly defined goals.
 - *c. Allows management to set their own goals.
 - d. Assists in the evaluation process of the business entity.

Correct answer: c

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

22. What type of information plays a major role in business planning and in evaluating the business planning process?
- a. Economic
 - b. Competitor
 - c. Financial
 - *d. Accounting

Correct answer: d

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

23. A business plan explains:
- a. the goals of the firm.
 - b. how it will operate the business.
 - c. the likely outcomes of the planned business.
 - *d. all of the above.

Correct answer: d

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

24. The evaluation process of a business plan allows:
- a. more effective use of scarce resources.
 - b. improvement in internal communications.
 - c. detection of variances between actual and budgeted results.
 - *d. all of the above.

Correct answer: d

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

25. The number of countries preparing financial reports using global accounting standards is:
- a. less than 50.
 - b. between 50 and 100.
 - c. between 100 and 150.
 - *d. more than 150.

Correct answer: d

Learning objective 1.5 ~ Discuss the globalisation of financial reporting

26. Companies operating in Australia and overseas must follow which accounting standards?
- *a. Both IFRS and local GAAP
 - b. Local generally accepted accounting principles only
 - c. IFRS only
 - d. FASB

Correct answer: a

Learning objective 1.5 ~ Discuss the globalisation of financial reporting

27. Which of the following includes the use of analytical tools to draw insights into the data, make decisions based on the data and communicate their findings to other parties such as management?
- a. Big data
 - *b. Data analytics
 - c. Cloud computing
 - d. Artificial intelligence

Correct answer: b

Learning objective 1.6 ~ Explain what is meant by digital disruption and how new technology is influencing the profession

28. Which of the following is *not* a key sustainability driver suggested by Ceres (2010)?

- *a. Transparency
- b. Competition for resources
- c. Connectivity and communication
- d. Climate change

Correct answer: a

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

29. Which principle of business sustainability performance is indicated when the company engages in fair trading practices with suppliers, distributors and partners?

- a. Ethics
- b. Governance
- c. Community involvement
- *d. Business relationships

Correct answer: d

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

30. Which theory holds that the purpose of the entity is to work for the good of all stakeholder groups, not just to maximise shareholder wealth?

- a. Agency theory
- b. Legitimacy theory
- *c. Stakeholder theory
- d. Stewardship theory

Correct answer: c

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

31. Which theory suggests that the motive for serving on a board goes beyond a perspective of pure self-interest?
- a. Stakeholder theory
 - b. Agency theory
 - c. Legitimacy theory
 - *d. Stewardship theory

Correct answer: d

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

32. Which theory describes the relationship between the shareholders and managers of an entity?
- a. Stakeholder theory
 - *b. Agency theory
 - c. Legitimacy theory
 - d. Stewardship theory

Correct answer: b

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

33. Which theory posits there are consequences for breaking the social contract?
- *a. Legitimacy theory
 - b. Stewardship theory
 - c. Agency theory
 - d. Stakeholder theory

Correct answer: a

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

34. Corporate social responsibility refers to:
- a. the integration of social, environmental, financial and governance information.
 - b. the use of the world's resources in a way that does not compromise the ability of future generations to meet their needs.
 - c. a focus on the economic, social and environmental performance of an entity.
 - *d. the responsibility an entity has to all stakeholders, including society in general and the physical environment in which it operates.

Correct answer: d

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

35. Which one of the following is *not* the focus when preparing a sustainability report in accordance with the GRI reporting guidelines?
- a. Social aspects
 - *b. Abundance
 - c. Environmental aspects
 - d. Economic aspects

Correct answer: b

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

36. Which of the following is *not* an organisational benefit of sustainability reporting cited by the top senior finance professionals, known as the Group of 100?
- *a. Increasing risk profile
 - b. Establishing position as a preferred supplier
 - c. Reputation and brand benefits
 - d. Attraction and retention of high calibre employees

Correct answer: a

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

37. Which of the following is cited by the Group of 100 finance professionals as an organisational benefit of sustainability reporting?
- a. Limited access to the investor market
 - b. Improved access to the labour market
 - *c. Securing a 'social licence to operate'
 - d. Innovation aligning management needs with stakeholder focus

Correct answer: c

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

38. Which one of the following is *not* a characteristic of ‘quality’ related to GRI’s Reporting Principles?
- a. Accuracy
 - b. Comparability
 - *c. Materiality
 - d. Reliability

Correct answer: c

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

39. Which one of the following is *not* a characteristic of ‘content’ related to GRI’s Reporting Principles?
- a. Completeness
 - b. Sustainability context
 - *c. Clarity
 - d. Stakeholder inclusiveness

Correct answer: c

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

40. GRI’s Specific Standard Disclosures include all the following *except*:
- a. management approach.
 - b. environmental indicators.
 - *c. stakeholder engagement.
 - d. social indicators.

Correct answer: c

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

41. GRI’s General Standard Disclosures include all the following *except*:
- a. ethics and integrity.
 - *b. management approach.
 - c. strategy and analysis.
 - d. stakeholder engagement.

Correct answer: b

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

42. Which of the following indicators is not included in GRI's Specific Standard Disclosures?
- a. Labour practices
 - *b. Governance
 - c. Human rights
 - d. Product responsibility

Correct answer: b

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

43. Which of the following is *not* an example of social capital?
- *a. Paying above-average salaries to workers
 - b. Not exploiting supplier relationships
 - c. Ensuring the product is safe for the consumer
 - d. Providing safe working conditions

Correct answer: a

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

44. The triple bottom line approach encourages a focus on which performance areas?
- a. Social, environmental and sustainability
 - *b. Economic, social and environmental
 - c. Economic, environmental and sustainability
 - d. Economic, social and sustainability

Correct answer: b

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

45. Integrated reporting (IR) refers to the integration of:
- a. sustainability, economic, environmental and social information.
 - b. environmental, financial and sustainability and social information.
 - *c. social, environmental, financial and governance information.
 - d. social, sustainability, economic and governance information.

Correct answer: c

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

46. What type of accountant provides advice on audit and tax issues?
- a. Financial accountant
 - b. Private accountant
 - c. Company accountant
 - *d. Public accountant

Correct answer: d

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

47. Which of the following has *not* been a traditional area of employment for accountants?
- *a. Forensic accounting
 - b. Audit and assurance
 - c. Financial accounting
 - d. Tax accounting

Correct answer: a

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

48. Which of the following is *not* likely to be a growth area for the accountants of the future?
- a. Sustainability accounting
 - b. Forensic accounting
 - *c. Transaction processing
 - d. E-Commerce

Correct answer: c

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

49. A public sector accountant may work in a number of positions such as:
- *a. forensic accounting.
 - b. management accounting.
 - c. e-commerce.
 - d. CFO in a large private company.

Correct answer: a

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

50. An accountant employed at a public hospital to set up the hospital accounting system works in the:
- a. public sector.
 - b. private sector.
 - c. government sector.
 - *d. not-for-profit sector.

Correct answer: d

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

Fill the blanks

51. Accounting provides users with _____ information to guide them in making decisions such as planning a business.

a. financial

Learning objective 1.1 ~ Explain the process of accounting

52. Accounting is the process of identifying, communicating and _____ economic information for the purposes of decision making.

a. measuring

Learning objective 1.1 ~ Explain the process of accounting

53. Entities that issue securities that are quoted on a stock market or made available to the public via a prospectus are known as _____ entities.

a. disclosing

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

54. A company's financial statements include the statement of _____ income, the statement of financial position and the statement of cash flows.

a. comprehensive

Learning objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users

55. The financial reports that meet the information needs of a range of users unable to demand accounting information are called _____ purpose financial statements.

a. general

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

56. Accounting reports that do not cater to the general needs common to most users are known as _____ purpose financial reports.

a. special

Learning objective 1.3 ~ Explain the differences between financial accounting and management accounting

57. A business plan can also be referred to as a(n) _____.

a. blueprint

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

58. Accounting information provides _____ with the tools necessary to evaluate the business plan.

a. management

Learning objective 1.4 ~ Explain the role of accounting information in the business planning process

59. The global accounting standards that are being followed by more than 160 countries worldwide to prepare their financial statements are known as _____.

a. International Financial Reporting Standards

Learning objective 1.5 ~ Discuss the globalisation of financial reporting

60. _____ technology supports cryptocurrencies such as Bitcoin.

a. Blockchain

Learning objective 1.6 ~ Explain what is meant by digital disruption and how new technology is influencing the profession

61. Fintech companies include many aspects of _____ (e.g. borrowing money, foreign currency, e-commerce, government payments) and the growth of this sector is impacting on accounting systems and processes.

a. finance

Learning objective 1.6 ~ Explain what is meant by digital disruption and how new technology is influencing the profession

62. Sustainable development is development that meets the needs of the present without compromising the ability of _____ generations to meet their own needs.

a. future

Learning objective 1.7 ~ Describe business sustainability, outline its key drivers and principles and compare key theories in the area

63. Integrated reporting (IR) refers to the integration of social, environmental, _____ and governance information.

a. financial

Learning objective 1.8 ~ Describe sustainability reporting and disclosure (including integrated reporting)

64. The area of accounting that helps to solve crimes such as computer hacking and the theft of large amounts of money through hoax schemes on the internet is referred to as _____ accounting.

a. forensic

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting

65. A job as a(n) _____ accountant could involve categorising and calculating greenhouse gas emissions, reviewing carbon reporting procedures, and evaluating the business risks and opportunities for reducing an entity's carbon footprint.

a. carbon

Learning objective 1.9 ~ Provide examples of exciting opportunities for careers in accounting