

Accounting - What the Numbers Mean, 12e (Marshall)
Chapter 1 Accounting—Present and Past

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) All of these entities require accounting information.

Answer: D

Difficulty: 1 Easy

Topic: What Is Accounting?

Learning Objective: 01-02 Identify who the users of accounting information are and explain why they find accounting information useful.

Bloom's: Remember

AACSB: Analytical Thinking

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2) The authoritative financial accounting standards-setting body in the United States is presently the:

- A) Securities and Exchange Commission (SEC)
- B) International Accounting Standards Board (IASB)
- C) Public Company Accounting Oversight Board (PCAOB)
- D) Financial Accounting Standards Board (FASB)
- E) Accounting Principles Board (APB)

Answer: D

Difficulty: 1 Easy

Topic: How Has Accounting Developed?

Learning Objective: 01-05 Explain the role that the FASB plays in the development of financial accounting standards.

Bloom's: Remember

AACSB: Analytical Thinking

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- 3) Which of the following statements about the Financial Accounting Standards Board is correct?
- A) The FASB is an agency of the Federal government.
 - B) The FASB has the authority to fine a noncompliant firm.
 - C) The FASB follows a due process procedure that permits input from interested parties before an Accounting Standards Update (ASU) is issued.
 - D) The FASB is controlled by the American Institute of CPAs.

Answer: C

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

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Bloom's: Understand

AACSB: Analytical Thinking

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- 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.

Answer: C

Difficulty: 1 Easy

Topic: What Is Accounting?

Learning Objective: 01-03 Identify the variety of professional services that accountants provide.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 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) Future profitability based on past profitability.
 - B) Probability of success of a new product development.
 - C) A forecast of dividends.
 - D) Assessment of risk that a company may have more debt than it can repay if the economy enters a recession.

Answer: B

Difficulty: 2 Medium

Topic: What Is Accounting?

Learning Objective: 01-02 Identify who the users of accounting information are and explain why they find accounting information useful.

Bloom's: Understand

AACSB: Reflective Thinking
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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) Personnel turnover statistics (i.e., hiring and terminations).
- B) Probability of the company's ability to make profit sharing plan contributions in the future.
- C) Assessment of the risk that the company may become bankrupt in the near future.
- D) The extent of the company's commitment to a research program.

Answer: A

Difficulty: 2 Medium

Topic: What Is Accounting?

Learning Objective: 01-02 Identify who the users of accounting information are and explain why they find accounting information useful.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: What Is Accounting?

Learning Objective: 01-03 Identify the variety of professional services that accountants provide.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

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.

Answer: C

Difficulty: 1 Easy

Topic: What Is Accounting?

Learning Objective: 01-03 Identify the variety of professional services that accountants

provide.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-06 Generalize about how financial reporting standards evolve.

Bloom's: Understand

AACSB: Communication

Accessibility: Keyboard Navigation

10) Cost accounting is a subset of which of the following?

A) Internal auditing.

B) Public auditing.

C) Cost analysis.

D) Managerial accounting.

Answer: D

Difficulty: 1 Easy

Topic: What Is Accounting?

Learning Objective: 01-03 Identify the variety of professional services that accountants provide.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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.

Answer: A

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-05 Explain the role that the FASB plays in the development of financial accounting standards.

Bloom's: Understand

AACSB: Analytical Thinking

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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.

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-09 Summarize the objective of general-purpose financial reporting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 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.

Answer: C

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-07 Identify the key elements of ethical behavior for a professional accountant.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

- 14) The objectives of financial reporting for nonbusiness enterprises:
- A) are exactly the same as those for business enterprises.
 - B) focus on providing information for resource providers, rather than investors.
 - C) have more of an internal utilization rather than external reporting focus.
 - D) do not give consideration to the cost of providing information.

Answer: B

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-09 Summarize the objective of general-purpose financial reporting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-07 Identify the key elements of ethical behavior for a professional accountant.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

- 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) Financial reporting should show the timing and amount of future cash dividends to potential investors.
 - C) The primary focus of financial reporting is information about the assets of the entity.
 - D) 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.

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-09 Summarize the objective of general-purpose financial reporting.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 17) Which of the following is 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 answers are correct.

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-06 Generalize about how financial reporting standards evolve.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) The provisions of the Sarbanes-Oxley Act of 2002 had the following components:

- A) Enforce auditing.
- B) Attestation.
- C) Quality control.
- D) All of the answers are correct.

Answer: D

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-06 Generalize about how financial reporting standards evolve.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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.

Answer: B

Difficulty: 1 Easy

Topic: What Is Accounting?

Learning Objective: 01-01 Explain the definition of accounting.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

20) Over the years, the Securities and Exchange Commission (SEC) has delegated its statutory authority to establish accounting principles for publicly traded companies in the United States. This delegated authority impacts which organization(s)?

- 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 principles in the U.S.
- E) Each of these organizations were at one time or another delegated authority by the SEC to establish accounting principles in the U.S.

Answer: E

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-04 Summarize the development of accounting from a broad historical perspective.

Bloom's: Understand

AACSB: Analytical Thinking

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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.

Answer: C

Difficulty: 2 Medium

Topic: How Has Accounting Developed?

Learning Objective: 01-08 Summarize the reasons for the FASB's Conceptual Framework project.

Bloom's: Understand

AACSB: Analytical Thinking

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