Name: ____________________ Class: ____________________ Date: __________

Chapter 01: Accounting: The language of business

1. The language of accounting needs to be sufficiently general:
   a. To be easily understandable
   b. To be applicable to a variety of situations and business models
   c. To be flexible
   d. To be reliable

ANSWER: b

2. Accounting is a specialized language. It needs to be specific enough to:
   a. Describe a state or a result
   b. Provide a rank ordering of results
   c. Describe the events that led to a result
   d. All of these.

ANSWER: d

3. Accounting is used to:
   a. Record economic variables.
   b. Record principally economic variables but can also describe non-financial parameters.
   c. Describe non-financial parameters.
   d. None of these.

ANSWER: b

4. What kind(s) of delegation occur(s) in business?
   a. Delegation from the capital providers to the enterprise
   b. Delegation from the capital providers to managers
   c. Delegation within the organization to specialized managers
   d. All of these.

ANSWER: d

5. Which of the following describes the flow of information allowing control by the 'delegator'?
   a. Financial accounting
   b. Reporting
   c. Managerial accounting
   d. Corporate finance

ANSWER: b

6. Financial reporting is accounting for what the 'delegatee' has done with the resources she or he has received from the 'delegator'.
   a. True
   b. False

ANSWER: a

7. Initial financial resources are provided by:
   a. Customers
   b. Managers
   c. Suppliers
   d. Capital providers

ANSWER: d

8. Which of the following can be capital providers?
   a. Shareholders and lenders
   b. Shareholders and managers
   c. Lenders and suppliers
   d. Lenders and customers

ANSWER: a

9. Each category of capital providers has specific reporting needs.
   a. True b. False

ANSWER: a

10. What are the major differences between shareholders and lenders?
   a. The risks of the business they are willing to assume and the amount they are investing.
   b. The kinds of activities they are willing to finance and the term for which they are investing capital.
   c. The risks of the business they are willing to assume and the term for which they are investing capital.
   d. The kinds of businesses they are willing to finance and the amount they are investing.

ANSWER: c

11. What are lenders mainly interested in?
   a. The use of the money the firm has borrowed.
   b. The ability of the business to create new products.
   c. The wealth created by the firm.
   d. The ability of the business to reimburse the money it has borrowed.

ANSWER: d

12. Shareholders want to know periodically.
   a. If the firm they have invested in is able to reimburse the money it has borrowed and how much residual wealth was created in the transformation process that they can claim as theirs.
   b. What the firm they have invested in owns and how much of the residual wealth created in the transformation process they can claim as theirs.
   c. What the firm they have invested in owns and how much managers are paid.
   d. If the firm they have invested in is able to reimburse the money it has borrowed and how much managers are paid.

ANSWER: b

13. Which financial statement is used to show how much residual wealth was created in the transformation process?
   a. Statement of cash flows
   b. Income statement
   c. Statement of financial position/Balance sheet
   d. Statement of retained earnings

ANSWER: b

14. Financially, lenders are rewarded by:
   a. Dividends. b. Interest.
   c. Profits. d. None of the above.

ANSWER: b

15. Accounting reports are prepared only for capital providers.
   a. True b. False

ANSWER: b

16. Many countries have created bodies to set standards and define and regulate the terms of accounting in order to:
    a. Facilitate measurement of wealth creation.
    b. Facilitate the support financial markets provide to the development of businesses.
    c. Open exchanges.
    d. All of these.

ANSWER: d

17. Those who use financial statements base their opinion about an economic entity on the:
    a. Financial situation.
    b. Cash generation.
    c. Sales performance.
    d. All of these.

ANSWER: d

18. What are the two key missions of accounting?
    a. To facilitate value creation by supporting resource acquisition and allocation decision- making and to control managers.
    b. To facilitate money borrowing and to measure and report to stakeholders the amount of value created during a given period.
    c. To facilitate value creation by supporting resource acquisition and allocation decision- making and to measure and report to stakeholders the amount of value created during a given period.
    d. To facilitate money borrowing and to control managers.

ANSWER: c

19. The type of accounting which deals with a detailed account of how resources are acquired, managed, and used by the firm is known as.
    a. Regulated accounting.
    b. Managerial accounting.
    c. Financial accounting.
    d. None of the above.

ANSWER: b

20. Financial accounting is primarily concerned with:
    a. The provision of financial information to internal interested parties
    b. Reporting at the micro-level
    c. The provision of information for managers' use
    d. The provision of financial information to external interested parties

ANSWER: d

21. Which of the following statements is true?
    a. The border between managerial accounting and financial accounting is clearly defined
    b. Managerial accounting and financial accounting are totally distinct from one another
    c. There is no difference between managerial accounting and financial accounting
    d. Managerial accounting and financial accounting are closely linked

ANSWER: d

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22. Financial accounting only recognizes transactions that have or will have monetary implications.

a. True	b. False

ANSWER: a

23. Valuation consists in giving a ____ value to the transaction so it can be recorded.

a. Legal	b. Monetary
c. Economic	d. Positive

ANSWER: b

24. Limited liability companies must periodically file financial statements with a regulatory organization.

a. True	b. False

ANSWER: a

25. Accounting standards are authoritative statements.

a. True	b. False

ANSWER: a

26. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and relevant.

a. True	b. False

ANSWER: b

27. The origins of accounting are often traced to:

a. The Roman Empire.	b. The Byzantine Empire.
c. The Middle Ages.	d. The times of Sumer.

ANSWER: d