

1.

Award: 1.00 point

Managerial accounting information is designed primarily to assist investors and creditors in deciding how to allocate scarce resources.

☐ True☒ False**References****True / False**

Difficulty: 1 Easy

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

2.

Award: 1.00 point

Information provided to decision makers in an organization is comprised only of the accounting information generated by the organization's information system.

☐ True☒ False**References****True / False**

Difficulty: 1 Easy

Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

3.

Award: 1.00 point

All internal control systems need to be monitored.

- ☒ True
☐ False

References

True / False	Difficulty: 2 Medium	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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4.

Award: 1.00 point

A data analytics system is the integrated management of core business processes that an organization can use to collect, store, manage, and interpret data across a wide range of business activities.

- ☐ True
→ ☒ False

References

True / False	Difficulty: 1 Easy	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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5.

Award: 1.00 point

Management accounting information is oriented toward the future while financial accounting information is historical in nature.

- ☒ True
- ☐ False

References

True / False

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium

Learning Objective:
01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

6.

Award: 1.00 point

Return on investment is the same as return of investment.

- ☐ True
- ☒ False

References

True / False	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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7.

Award: 1.00 point

The IRS tax return is one of the primary financial statements.

- ☐ True
- ☒ False

References

True / False	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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8.

Award: 1.00 point

External users of accounting information have a financial interest in an entity but are not involved with the day-to-day operations of the enterprise.

- ☒ True
- ☐ False

References

True / False

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

9.

Award: 1.00 point

The tailoring of an accounting report to meet the needs of a specific decision maker is more characteristic of financial accounting reports than of management accounting reports.

☐ True

→ ☒ False

References

True / False

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium

Learning Objective:
01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

10.

Award: 1.00 point

The annual financial statements of large corporations such as Microsoft or PepsiCo need not be audited by independent certified public accountants, since these companies maintain large accounting departments as part of their organizations.

☐ True

→ ☒ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

11.

Award: 1.00 point

The statement of financial position and the income statement are one and the same.

☐ True

→ ☒ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

12.

Award: 1.00 point

Investors are individuals and other enterprises that have provided equity to the reporting enterprise.

- ☐ True
- ☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

13.

Award: 1.00 point

A statement of cash flows depicts the way profits have changed during a designated period.

- ☐ True
- ☐ False

References

True / False

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

14.

Award: 1.00 point

Management accounting refers to the preparation and use of accounting information designed to meet the needs of decision makers outside the business organization.

☐ True☒ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

15.

Award: 1.00 point

The content of management accounting reports needs to be presented in conformity with generally accepted accounting principles.

☐ True☒ False

References

True / False

Difficulty: 2 Medium

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

16.

Award: 1.00 point

One purpose of generally accepted accounting principles is to make accounting information prepared by different companies more comparable.

- ☒ True
☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

17.

Award: 1.00 point

An accounting practice can become a "generally accepted accounting principle" through widespread use, even if the practice is not mentioned in the official pronouncements of the accounting standard-setting organizations.

- ☒ True
☐ False

References

True / False

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

18.

Award: 1.00 point

The Public Company Accounting Oversight Board is responsible for creating and promoting International Financial Reporting Standards.

☐ True

→ ☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

19.

Award: 1.00 point

Today, the most authoritative source of generally accepted accounting principles is the American Accounting Association.

☐ True

→ ☒ False

References

True / False

Learning Objective:
01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Difficulty: 1 Easy

Learning Objective:
01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

20. Award: 1.00 point

The American Institute of Certified Public Accountants has the legal authority over publicly held corporations to enforce compliance with generally accepted accounting principles.

- ☐ True
- ☒ False

References

True / False	Difficulty: 2 Medium	Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.
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21. Award: 1.00 point

The Securities and Exchange Commission is instrumental in the development of financial accounting standards.

- ☒ True
- ☐ False

References

True / False	Difficulty: 1 Easy	Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
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22.

Award: 1.00 point

Financial accounting standards issued by the FASB are considered generally accepted accounting principles.

- ☒ True
- ☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

23. Award: 1.00 point

Generally accepted accounting principles were established by the American Accounting Association in 1934 and are updated annually by Congress.

- ☐ True
- ☒ False

References

True / False

Learning Objective:
01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Difficulty: 1 Easy

Learning Objective:
01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

24. Award: 1.00 point

The CPA examination is administered by the General Accounting Office of the U.S. Government.

- ☐ True
- ☐ False

References

True / False	Difficulty: 1 Easy	Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.
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25. Award: 1.00 point

The Sarbanes-Oxley Act places responsibility on CEOs and CFOs of companies to certify the fairness of a company's financial statements. The Act also created the Public Company Accounting Oversight Board, which oversees the public accounting profession.

- ☐ True
- ☐ False

References

True / False	Difficulty: 2 Medium	Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
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26. Award: 1.00 point

The Code of Ethics of the AICPA calls for a commitment to ethical behavior but not at the sacrifice of personal advantage.

- ☐ True
- ☐ False

References

True / False	Difficulty: 2 Medium	Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.
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27. Award: 1.00 point

The Code of Ethics of the AICPA calls for a member in public practice to be independent in fact and appearance when providing auditing services.

- ☐ True
- ☐ False

References

True / False	Difficulty: 2 Medium	Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.
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28. Award: 1.00 point

Public accounting is the segment of the profession where professionals offer audit, tax, and consulting services to clients.

- ☒ True
☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

29. Award: 1.00 point

Career opportunities in accounting exist in public accounting, management accounting, governmental accounting, and accounting education.

- ☒ True
☐ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

30. Award: 1.00 point

Financial accounting information is:

- ☒ Designed to assist investors and creditors.
- ☐ Submitted to the IRS in lieu of a tax form.
- ☐ Called "special-purpose" accounting information.
- ☐ Not applicable to individuals.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

31. Award: 1.00 point

Which of the following does not describe accounting?

- ☐ It is commonly referred to as the language of business.
- ☒ It is an end rather than a means to an end.
- ☐ It is useful for decision-making.
- ☐ It is used by businesses, governments, non-profit organizations, and individuals.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

32.

Award: 1.00 point

The field of accounting may best be described as:

- ☐ Recording the financial transactions of an economic entity.
- ☐ Developing information in conformity with generally accepted accounting principles.
- ☒ The art of interpreting, measuring, and describing economic activity.
- ☐ Developing the information required for the preparation of income tax returns.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

33.

Award: 1.00 point

The basic purpose of bookkeeping is to:

- ☐ Provide financial information about an economic entity.
- ☐ Develop the types of information best-suited to specific managerial decisions.
- ☒ Record the financial transactions of an economic entity.
- ☐ Determine the taxable income of individuals and business entities.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

34.

Award: 1.00 point

Which of the following is not characteristic of financial accounting?

- ☐ Information used in financial statements is prepared in conformity with generally accepted accounting principles.
- ☐ The information is confidential and is intended for use only by company management.
- ☐ The information is used in a wide variety of business decisions.
- ☐ The information is developed primarily by "private accountants" that is, accountants employed by business organizations.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions.

35.

Award: 1.00 point

The information systems of most business organizations:

- ☐ Are tailored to meet the organization's needs for accounting information and the resources available for operating the system.
- ☐ Are similar in design to the journals, ledgers, and worksheets illustrated in this text.
- ☐ Utilize data bases, rather than ledger accounts.
- ☐ Are designed by the CPA firm that performs the annual financial audit.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

36. Award: 1.00 point

The NYSE requires all listed companies to:

- ☐ Register with the PCAOB (Public Company Accounting Oversight Board).
- ☐ Send financial statements directly to investors, creditors, and other users of financial information.
- ☐ Maintain an internal audit function.
- ☐ Use IFRS (International Financial Reporting Standards) for financial statement reporting purposes.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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37. Award: 1.00 point

Which of the following is not a basic function of an information system?

- ☐ To interpret and record the effects of business transactions.
- ☐ To classify the effects of similar transactions in a manner that permits determination of various totals and subtotals useful to management.
- ☐ To ensure that a business organization will be managed profitably.
- ☐ To summarize and communicate information to decision makers.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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38. Award: 1.00 point

Information is cost-effective when:

- ☐ The information aids management in controlling costs.
- ☐ The information is based upon historical costs, rather than upon estimated market values.
- ☒ The value of the information exceeds the cost of producing it.
- ☐ The information is generated by a computer-based accounting system.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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39. Award: 1.00 point

Which of the following events is not a transaction that would be recorded in a company's accounting records?

- ☐ The purchase of equipment for cash.
- ☐ The purchase of equipment on account.
- ☐ The investment of additional cash in the business by the owner.
- ☒ The death of a key executive.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.
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40. Award: 1.00 point

A strong internal control structure:

- ☒ Provides reasonable assurance that the organization produces reliable financial reports.
- ☐ Will prevent a business from operating at a loss.
- ☐ Ensures a business will remain solvent.
- ☐ Will prevent fraud, theft, and embezzlement.

References

Multiple Choice Difficulty: 2 Medium Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

41. Award: 1.00 point

The best definition of an information system is:

- ☐ Journals, ledgers, and worksheets.
- ☐ Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
- ☒ The personnel, procedures, technology, and records used by an entity to develop information and communicate this information to decision makers.
- ☐ The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

References

Multiple Choice Difficulty: 2 Medium Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

42. Award: 1.00 point

The objectives of an accounting system include all of the following, except:

- ☐ Interpret and record the effects of business transactions.
- ☐ Classify the effects of transactions to facilitate the preparation of reports.
- ☐ Summarize and communicate information to decision makers.
- ☒ Dictate the specific types of business transactions the enterprise may pursue.

References

Multiple Choice Difficulty: 2 Medium Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

43. Award: 1.00 point

Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them \$4,500 to help get the company started, and they have promised to repay your \$4,500 plus 8% interest in one year. Of the following, which amount may be described as the return on your investment?

- ☐ \$4,860
- ☐ \$4,140
- ☐ \$4,500
- ☒ \$360

Return on investment is payment for usage of the money—interest in this setting. $8\% \times \$4,500 = \360 .

References

Multiple Choice Difficulty: 2 Medium Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

44.

Award: 1.00 point

Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them \$8,000 to help get the company started, and they have promised to repay your \$8,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

- ☐ \$8,000
- ☒ \$800
- ☐ \$8,800
- ☐ \$7,200

Return on investment is payment for usage of the money—interest in this setting. $10\% \times \$8,000 = \800 .

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

45. Award: 1.00 point

Which of the following is generally not considered one of the general-purpose financial statements issued by a corporation?

- ☒ Income statement forecast for the coming year.
- ☐ Balance sheet.
- ☐ Statement of financial position.
- ☐ Statement of cash flows.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

46. Award: 1.00 point

Which of the following is considered a return "on" investment?

- ☒ Dividends.
- ☐ Repayment of a loan.
- ☐ Purchase of an asset.
- ☐ Securing a loan.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

47.

Award: 1.00 point

The financial statements of a business entity:

- ☐ Include the balance sheet, income statement, and income tax return.
- ☒ Provide information about the cash flow prospects of the company.
- ☐ Are the first step in the accounting process.
- ☐ Are prepared for a fee by the Financial Accounting Standards Board.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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48.

Award: 1.00 point

Which of the following are not considered "external" users of financial statements?

- ☐ Owners.
- ☐ Creditors.
- ☐ Labor unions.
- ☒ Managers.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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49.

Award: 1.00 point

Financial statements are designed primarily to:

- ☐ Provide managers with detailed information tailored to the managers' specific information needs.
- ☒ Provide people outside the business organization with information about the company's financial position and operating results.
- ☐ Report to the Internal Revenue Service the company's taxable income.
- ☐ Indicate to investors in a particular company the current market values of their investments.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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50.

Award: 1.00 point

The principal difference between management accounting and financial accounting is that financial accounting information is:

- ☐ Prepared by managers.
- ☒ Intended primarily for use by decision makers outside the business organization.
- ☐ Prepared in accordance with a set of accounting principles developed by the Institute of Certified Management Accountants.
- ☐ Oriented toward measuring solvency rather than profitability.

References

Multiple Choice

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium

Learning Objective:
01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

51.

Award: 1.00 point

Which financial statement is prepared as of a specific date?

- ☒ The balance sheet
- ☐ The income statement
- ☐ The statement of cash flows
- ☐ The balance sheet, income statement, and statement of cash flows are all for a period of time rather than at a specific date.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

52.

Award: 1.00 point

In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a management accounting report is more likely to:

- ☐ Be used by decision makers outside of the business organization.
- ☐ Focus upon the operation results of the most recently completed accounting period.
- ☐ View the entire organization as the reporting entity.
- ☐ Be tailored to the specific needs of an individual decision maker.

References

Multiple Choice Learning Objective:
01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium Learning Objective:
01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Which of the following decision makers is least likely to be among the users of management accounting reports developed by a large organization that operates retail stores that sell to consumers?

- ☐ The chief executive officer of the organization.
- ☐ The manager of a department in one of the stores owned by the organization.
- ☒ The manager of a mutual fund considering investing in the organization's common stock.
- ☐ Internal auditors within the organization.

References

Multiple Choice Learning Objective:
01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium Learning Objective:
01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

54.

Award: 1.00 point

Which financial statement is primarily concerned with reporting the financial position of a business at a particular time?

- ☒ The balance sheet.
- ☐ The income statement.
- ☐ The statement of cash flows.
- ☐ Consolidated statement of stockholders' equity.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

55.

Award: 1.00 point

Financial statements are prepared:

- ☐ Only for publicly owned business organizations.
- ☐ For corporations, but not for sole proprietorships or partnerships.
- ☒ Primarily for the benefit of persons outside of the business organization.
- ☐ In either monetary or nonmonetary terms, depending upon the need of the decision maker.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

56.

Award: 1.00 point

Financial statements may be prepared for which time period?

- ☐ One year.
- ☐ Less than one year.
- ☐ More than one year.
- ☒ Any time period.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

57.

Award: 1.00 point

Which of the following is generally not considered an external user of accounting information?

- ☐ Stockholders of a corporation.
- ☐ Bank lending officers.
- ☐ Financial analysts.
- ☒ Factory managers.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

58. Award: 1.00 point

Although accounting information is used by a wide variety of external parties, financial reporting is primarily directed toward the informational needs of:

- ☒ Investors and creditors.
- ☐ Government agencies such as the Internal Revenue Service.
- ☐ Customers.
- ☐ Trade associations and labor unions.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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59. Award: 1.00 point

Investors may be described as:

- ☐ Individuals and enterprises that have provided credit to a reporting entity.
- ☒ Individuals and enterprises that have ownership interest in a reporting entity.
- ☐ Anyone with an interest in the results of the operations of the reporting entity.
- ☐ Those whose primary economic activity consists of buying and selling stocks and bonds.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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60. Award: 1.00 point

Of the following objectives of financial reporting, which is the most specific?

- ☐ Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
- ☐ Provide general information useful in making investment and credit decisions.
- ☒ Provide specific information about economic resources, claims to resources, and changes in resources and claims.
- ☐ Provide information useful to help the enterprise achieve its goals, objectives, and mission.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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61. Award: 1.00 point

Investors and creditors are interested in the probability that their original investment or loan will eventually be returned, and that they will receive a reasonable return while their funds are invested or borrowed. These expectations are collectively referred to as:

- ☐ Expected profitability.
- ☐ The objectives of financial reporting.
- ☒ Cash flow prospects.
- ☐ Financial position.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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62. Award: 1.00 point

A complete set of financial statements for Citywide Company, at December 31, Year 1, would include each of the following, except:

- ☐ Balance sheet as of December 31, Year 1.
- ☐ Income statement for the year ended December 31, Year 1.
- ☐ Statement of projected cash flows for Year 2.
- ☐ Notes containing additional information that is useful in interpreting the financial statements.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

63. Award: 1.00 point

The general-purpose financial statements prepared annually by a corporation would not include the:

- ☐ Balance sheet.
- ☐ Income tax return.
- ☐ Income statement.
- ☐ Statement of cash flows.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

64. Award: 1.00 point

Which of the following is a characteristic of financial accounting information?

- ☒ Its preparation requires judgment.
- ☐ It is more about the future than it is about the past.
- ☐ None of it is based on estimates, assumptions, and judgments.
- ☐ Notes and explanations from management are not included.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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65. Award: 1.00 point

Which of the following statements is considered a "snapshot" of the business in financial or dollar terms?

- ☒ Statement of financial position.
- ☐ Statement of cash flows.
- ☐ Income statement.
- ☐ The federal income tax return.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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66. Award: 1.00 point

Objectives of financial reporting to external investors and creditors include preparing information about all of the following except:

- ☐ Information used to determine which products to produce.
- ☐ Information about economic resources, claims to those resources, and changes in both resources and claims.
- ☐ Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.
- ☐ Information that is useful in making investment and credit decisions.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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67. Award: 1.00 point

Financial accounting information is characterized by all of the following except:

- ☐ It is historical in nature.
- ☐ It results from inexact and approximate measures.
- ☐ It is factual, so it does not require judgment to prepare.
- ☐ It is enhanced by management's explanation.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
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68. Award: 1.00 point

It is the function of management accounting to perform the following activities, except:

- ☐ Create financial forecasts.
- ☐ Perform cost accounting.
- ☐ Complete internal audits.
- ☐ Audit financial statements.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

69. Award: 1.00 point

All of the following are characteristics of management accounting, except:

- ☐ Reports are used primarily by insiders rather than by persons outside of the business entity.
- ☐ Its purpose is to assist managers in planning and controlling business operations.
- ☐ Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
- ☐ Information may be tailored to assist in specific managerial decisions.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

70. Award: 1.00 point

Internal users of financial accounting information include all of the following except:

- ☒ Investors.
- ☐ Managers.
- ☐ Chief Financial Officer.
- ☐ Chief Executive Officer.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

71. Award: 1.00 point

Which of the following is not a user of internal accounting information?

- ☐ Store manager
- ☐ Chief executive officer
- ☒ Creditor
- ☐ Chief financial officer

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

72. Award: 1.00 point

Characteristics of internal accounting information include all of the following except:

- ☐ It is audited by a CPA.
- ☐ It must be timely.
- ☐ It is generally oriented toward the future.
- ☐ It measures efficiency and effectiveness.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

73. Award: 1.00 point

Which of the following is not an important factor in ensuring the integrity of accounting information?

- ☐ Institutional factors, such as standards for preparing information.
- ☐ Professional organizations, such as the American Institute of CPAs.
- ☐ Competence, judgment, and ethical behavior of individual accountants.
- ☐ The cost of preparing the financial information.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

74. Award: 1.00 point

Generally accepted accounting principles:

- ☐ Are based on official decrees only.
- ☐ Are based on tradition only.
- ☐ Are based on an accountant's experience only.
- ☐ May change over time.

References

Multiple Choice Difficulty: 2 Medium Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

75. Award: 1.00 point

The Sarbanes-Oxley Act of 2002 created:

- ☐ The Security and Exchange Commission.
- ☐ The Financial Accounting Standards Board.
- ☐ The Public Company Accounting Oversight Board.
- ☐ The Income Tax Return Overview Board.

References

Multiple Choice Difficulty: 1 Easy Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

76. Award: 1.00 point

Publicly owned companies are those whose ownership shares are:

- ☒ Bought and sold through stock exchanges or over-the-counter markets.
- ☐ Bought and sold through the NYSE.
- ☐ Owned by other publicly owned companies.
- ☐ Owned by foreign corporations.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

77. Award: 1.00 point

The FASB's conceptual framework:

- ☒ Explains and guides the future development of accounting standards.
- ☐ Sets forth the accounting standards referred to as generally accepted accounting principles.
- ☐ Is not recognized by the SEC.
- ☐ Has been superseded by generally accepted accounting principles.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

78.

Award: 1.00 point

Overseeing a company's affairs to ensure that the company is managed with the best interest of shareholders in mind is called:

- ☐ Internal control.
- ☐ Financial integrity.
- ☒ Corporate governance.
- ☐ The audit function.

References

Multiple Choice Learning Objective:
01-05 Discuss
elements of the
system of external
and internal financial
reporting that create
integrity in the
reported
information.

**Difficulty: 2
Medium** Learning Objective:
01-06 Identify and
discuss several
professional
organizations that
play important roles
in preparing and
communicating
accounting
information.

79.

Award: 1.00 point

The basic purpose of an audit is to:

- ☒ Assure outsiders that financial statements are prepared in conformity with generally accepted accounting principles (GAAP).
- ☐ Provide as much useful information to decision makers as possible, regardless of cost.
- ☐ Record changes in the financial position of an organization by applying the concepts of double entry accounting.
- ☐ Meet an organization's need for accounting information as efficiently as possible.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

80.

Award: 1.00 point

Audits of financial statements are performed by:

- ☐ The controller of the reporting company.
- ☐ The Financial Accounting Standards Board (FASB).
- ☐ The management of the reporting company.
- ☒ Independent certified public accountants (CPAs).

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

81.

Award: 1.00 point

The auditor's report on the published financial statements of a large corporation should be viewed as:

- ☒ The opinion of independent experts as to the overall fairness of the statements.
- ☐ The opinion of the corporation's chief accountant as to the overall fairness of the statements.
- ☐ A guarantee by a firm of certified public accountants that the statements are accurate.
- ☐ A guarantee by the Financial Statements Insurance Board that the statements do not overstate assets or net income.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

82.

Award: 1.00 point

The set of standards, assumptions, and concepts that form the "ground rules" for financial reporting in the United States is termed:

- ☐ The conceptual framework.
- ☒ Generally accepted accounting principles.
- ☐ Statements of Financial Accounting Concepts.
- ☐ American standards for certified public accountants.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

83. Award: 1.00 point

The basic purpose of generally accepted accounting principles is to:

- ☐ Minimize the possibility of a business becoming insolvent.
- ☒ Provide a framework for financial reporting that is understood by both the preparers and the users of financial statements.
- ☐ Ensure that financial statements include the type of information that is best suited to every type of business decision.
- ☐ Eliminate the need for professional judgment in preparing financial statements.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
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84. Award: 1.00 point

Establishing international accounting standards is the responsibility of:

- ☐ AICPA.
- ☒ IASB.
- ☐ SEC.
- ☐ AAA.

References

Multiple Choice	Difficulty: 1 Easy	Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
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85. Award: 1.00 point

Generally accepted accounting principles are intended to assist accountants in preparing financial statements that:

- ☒ Are relevant, verifiable, comparable, and understandable.
- ☐ Show the business to be both solvent and profitable.
- ☐ Comply with all income tax rules and regulations.
- ☐ Are ideally suited to the specific needs of each user of the financial statements.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

86. Award: 1.00 point

Which of the following is not an objective of generally accepted accounting principles?

- ☒ To minimize the amount of income taxes owed.
- ☐ To ensure that both preparers and users of financial statements understand the concepts and assumptions used in presenting information within these statements.
- ☐ To enhance the relevance and verifiability of information contained in financial statements.
- ☐ To increase the comparability of financial statements prepared by different companies.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

87.

Award: 1.00 point

In the phrase "generally accepted accounting principles," the words accounting principles refers to:

- ☒ The standards, assumptions, and concepts that serve as "ground rules" for financial reporting.
- ☐ Ethical standards that prohibit fraudulent or misleading financial reporting.
- ☐ The steps in the accounting cycle.
- ☐ The accounting practices authorized by the Financial Accounting Standards Board (FASB).

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

88.

Award: 1.00 point

The accounting standards and concepts used in the preparation of financial statements are called:

- ☐ Certified principles of accounting (CPA).
- ☒ Generally accepted accounting principles (GAAP).
- ☐ Federal accounting standards and bylaws (FASB).
- ☐ Standards enforcing consistency (SEC).

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

89.

Award: 1.00 point

Generally accepted accounting principles are the "ground rules" used in the preparation of:

- ☐ Income tax returns.
- ☐ All accounting reports.
- ☐ Reports to federal and state regulatory agencies.
- ☒ Financial statements.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

90.

Award: 1.00 point

The Financial Accounting Standards Board is:

- ☐ Responsible for the review and audit of federal income tax returns.
- ☐ Primarily concerned with the preparation of the annual federal budget.
- ☒ A private group that conducts research and determines generally accepted accounting principles.
- ☐ A government agency with legal authority to approve or disapprove the financial statements of corporations that sell their securities to the public.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

91.

Award: 1.00 point

The Accounting Standards Codification was developed by:

- ☒ The Financial Accounting Standards Board.
- ☐ Certified public accountants.
- ☐ The Securities and Exchange Commission.
- ☐ The Internal Revenue Service.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

92.

Award: 1.00 point

The body created by the Sarbanes Oxley Act and charged with oversight of the accounting profession is the:

- ☒ Public Company Accounting Oversight Board.
- ☐ Auditing Standards Board.
- ☐ International Accounting Standards Board.
- ☐ Securities and Exchange Commission.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

93.

Award: 1.00 point

The measures used by an organization to provide reasonable assurance that the organization produces reliable financial reports, complies with applicable laws and regulations, and conducts its operations in an efficient and effective manner are collectively referred to as:

- ☐ Generally accepted accounting principles.
- ☐ Financial accounting standards.
- ☐ Securities and exchange regulations.
- ☒ The internal control structure.

References

Multiple Choice Learning Objective:
01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

**Difficulty: 2
Medium** Learning Objective:
01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

94.

Award: 1.00 point

In 2012 the SEC issued an extensive report regarding the use of IFRS by U.S. public companies and listed which of the following as a major obstacle to adopting IASB standards?

- ☐ IASB standards are generally viewed as low quality.
- ☒ IASB is dependent on funding from the major accounting firms.
- ☐ Cross-border financing is decreasing in popularity.
- ☐ The IASB is not a governmental agency, and therefore it is not positioned to develop accounting standards.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

95.

Award: 1.00 point

The basic purpose of audited financial statements is to:

- ☐ Provide the reporting company with assurance that all assets are protected from theft or embezzlement.
- ☐ Prepare financial statements for companies that do not have their own accounting departments.
- ☒ Provide users of the financial statements with assurance that the statements are verifiable and are presented in conformity with generally accepted accounting principles.
- ☐ Provide both the reporting company and the users of the statements with a written guarantee that the statements are error-free.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

96.

Award: 1.00 point

The FASB takes on a responsibility to do the following, except:

- ☐ Set the objectives of financial reporting.
- ☐ Describe the elements of financial statements.
- ☐ Judge disputes between management and the CPA.
- ☐ Determine the criteria for deciding what information to include in financial statements.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Which of the following is not recognized as a source of generally accepted accounting principles?

- ☐ Widespread and long-term use of a particular practice.
- ☐ The Financial Accounting Standards Board (FASB).
- ☐ The Securities and Exchange Commission (SEC).
- ☐ Statements of the Committee of Sponsoring Organizations (COSO).

References

Multiple Choice

Learning Objective:
01-05 Discuss
elements of the
system of external
and internal financial
reporting that create
integrity in the
reported
information.

Difficulty: 2 Medium

Learning Objective:
01-06 Identify and
discuss several
professional
organizations that
play important roles
in preparing and
communicating
accounting
information.

98.

Award: 1.00 point

In the phrase "generally accepted accounting principles," the words generally accepted mean that the principles:

- ☐ Have been adopted by Congress or approved by the voters in a general election.
- ☐ Are acceptable to the Internal Revenue Service.
- ☒ Are understood and observed by all the participants in the financial reporting process.
- ☐ Have been approved by a majority of the members of the Financial Accounting Standards Board.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

99.

Award: 1.00 point

Which of the following has the least impact upon the integrity of financial statements issued by publicly owned corporations?

- ☐ Federal securities laws.
- ☐ Professional judgment of the accountants who prepare the financial statements.
- ☒ Audits of the financial statements by the Internal Revenue Service.
- ☐ Competence and integrity of the CPAs who perform audits.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Which of the following is true?

- ☐ The existence of generally accepted accounting principles (GAAP) eliminates the need for professional judgment except in very unusual circumstances.
- ☒ Federal securities laws regarding the issuance of misleading financial statements apply not only to the independent auditors, but to management of the company as well.
- ☐ Attaining a passing score on the part of the Uniform CPA Examination that covers professional ethics is evidence of integrity and commitment to ethical conduct.
- ☐ A professional accountant should resign his position rather than become involved in the distribution of financial statements indicating insolvency.

References

Multiple Choice Learning Objective:
01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Difficulty: 2 Medium Learning Objective:
01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

101. Award: 1.00 point

Which organization best serves the professional needs of a CPA?

- ☐ FASB.
- ☒ AICPA.
- ☐ SEC.
- ☐ AAA.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.
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102. Award: 1.00 point

An accounting principle must receive substantial authoritative support to qualify as generally accepted. Among the organizations and agencies that have been influential in the development of generally accepted accounting principles, which of the following has provided the most influential leadership?

- ☐ Internal Revenue Service.
- ☐ Institute of Management Accountants.
- ☒ Financial Accounting Standards Board.
- ☐ NYSE.

References

Multiple Choice	Difficulty: 2 Medium	Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.
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103. Award: 1.00 point

The American Institute of Certified Public Accountants has a Code of Professional Conduct that expresses the accounting profession's recognition of its responsibilities to all of the following except:

- ☐ The public.
- ☐ The client.
- ☐ Colleagues.
- ☐ The IRS.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

104. Award: 1.00 point

The work of accountants practicing in public accounting may best be described as:

- ☐ Providing various types of accounting services to a wide variety of clients.
- ☐ Preparing income tax returns for individuals and small businesses.
- ☐ Developing and interpreting information tailored to the needs of business managers.
- ☐ Helping governmental agencies carry out their various regulatory responsibilities.

References

Multiple Choice Difficulty: 2 Medium

Learning Objective: 01-08 Describe various career opportunities in accounting.

105. Award: 1.00 point

The primary function of external auditors is to:

- ☒ Express an opinion on the fairness of the company's financial statements.
- ☐ Determine the accuracy of the management reports.
- ☐ Evaluate the efficiency of operations and the degree of compliance with management's policies in all departments within a large organization.
- ☐ Determine that financial statements and all special reports to management are prepared in conformity with generally accepted accounting principles.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

106. Award: 1.00 point

Management accountants primarily are concerned with developing information:

- ☐ For use in income tax returns.
- ☐ Suited to the needs of stockholders, creditors, and other external decision makers.
- ☐ In conformity with generally accepted accounting principles.
- ☒ Suited to the needs of decision makers within the organization.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

107. Award: 1.00 point

The designation of CPA is given by:

- ☐ Universities.
- ☒ States.
- ☐ The AICPA.
- ☐ The SEC.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

108. Award: 1.00 point

One of the principal functions of CPAs is to:

- ☐ Audit income tax returns to determine if taxpayers have underpaid their income taxes.
- ☐ Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.
- ☐ Advise individual investors on stock market investments.
- ☒ Perform audits to determine the fairness of a company's financial statements.

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

109. Award: 1.00 point

The SEC requires corporate officers to sign the Form 10-K, which is filed annually with the SEC. Which of the following officers is not among those required to sign?

- ☐ CEO (Chief Executive Officer).
- ☐ CAO (Chief Accounting Officer).
- ☐ CFO (Chief Financial Officer).
- ☐ COO (Chief Operating Officer).

References

Multiple Choice Difficulty: 1 Easy

Learning Objective: 01-08 Describe various career opportunities in accounting.

Listed below are nine accounting terms introduced in this chapter:

Audit
 Return of investment
 Return on investment
 Generally accepted accounting principles
 Balance sheet
 Income statement
 Internal control structure
 Management accounting
 Statement of cash flows

Each of the following statements may (or may not) describe one of these terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms. More than one statement may describe a single term.

- (A) The repayment to an investor of the amount originally invested in an enterprise.
- (B) An independent examination of financial statements designed to determine their fairness in relation to generally accepted accounting principles.
- (C) The accounting standards and concepts used in the preparation of financial statements.
- (D) A system of measures designed to assure management that all aspects of the business are operating according to plan.
- (E) A listing of assets, liabilities, and stockholders' equity as of a specific date.
- (F) The payment of an amount for using another's money.
- (G) An activity statement that shows the details of the company's activities involving cash during a period of time.

- (A) Return of investment
- (B) Audit
- (C) Generally accepted accounting principles
- (D) Internal control structure
- (E) Balance sheet
- (F) Return on investment
- (G) Statement of cash flows

References

Essay

Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Difficulty: 1 Easy

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties- primarily investors and creditors-in terms of the objectives and the characteristics of that information.

Learning Objective: 01-01
Discuss accounting as the language of business and the role of accounting information in making economic decisions.

Learning Objective:
01-04 Explain the importance of accounting information for internal parties- primarily management-in terms of the objectives and the characteristics of that information.

Listed below are eight accounting terms.

Management Accounting
Accounting System
Financial Accounting
Internal Controls
Financial Position
Financial Statements
Results of Operations
Financial Reporting

Each of the following statements may (or may not) describe one of these terms. In the space provided, indicate the accounting term described or answer "None" if the statement does not accurately describe any of the terms.

- (A) Information describing the financial resources, obligations, and activities of an economic entity.
- (B) An entity's financial resources and obligations at a point in time.
- (C) Accounting information intended specifically to assist company's management.
- (D) The personnel, procedures, and technology used by an organization to develop accounting information and to communicate this information to decision makers.
- (E) An entity's financial activities over a period of time.
- (F) Measures used by an organization to guard against errors, waste, and fraud and to assure the reliability of accounting information.
- (G) A plan of financial operations for some future period.
- (H) A written assertion identifying, measuring, and communicating financial information about an economic entity.

- (A) Financial Accounting
- (B) Financial Position
- (C) Management Accounting
- (D) Accounting System
- (E) Results of Operations
- (F) Internal Controls
- (G) None
- (H) Financial Statements

References

Essay

Learning Objective: 01-02 Discuss the significance of information systems in generating reliable accounting information and understand the five components of internal control.

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

**Difficulty: 2
Medium**

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties- primarily investors and creditors-in terms of the objectives and the characteristics of that information.

**Learning
Objective: 01-01
Discuss
accounting as
the language of
business and
the role of
accounting
information in
making
economic
decisions.**

Learning Objective:
01-04 Explain the importance of accounting information for internal parties- primarily management-in terms of the objectives and the characteristics of that information.

Listed below are seven accounting organizations introduced in this chapter:

Financial Accounting Standards Board
 Public Company Accounting Oversight Board
 Internal Revenue Service
 American Accounting Association
 Institute of Internal Auditors
 Securities and Exchange Commission
 Institute of Management Accountants

Each of the following statements may (or may not) describe one of these organizations. In the space provided, indicate the organization described or answer "None" if the statement does not accurately describe any of the organizations.

- (A) Private organization most directly involved in the development and issuance of accounting standards
- (B) Government agency that regulates financial reporting by publicly-held companies
- (C) Organization dedicated to the advancement of accounting education and research
- (D) International organization dedicated to the advancement of internal auditing
- (E) Organization that develops formal standards for auditing in the United States
- (F) Organization most involved with the ethical conduct of the accountants working within a company
- (G) A governmental agency that handles income tax returns of individuals and businesses and performs an audit function to verify the data presented

- (A) Financial Accounting Standards Board
- (B) Security and Exchange Commission
- (C) American Accounting Association
- (D) Institute of Internal Auditors
- (E) Public Company Accounting Oversight Board
- (F) Institute of Management Accountants
- (G) Internal Revenue Service

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Listed below are seven accounting organizations introduced in this chapter:

American Accounting Association
 American Institute of CPAs
 Internal Revenue Service
 Financial Accounting Standards Board
 Securities and Exchange Commission
 Institute of Internal Auditors
 Institute of Management Accountants
 International Accounting Standards Board

Each of the following statements may (or may not) describe one of these organizations. In the space provided, indicate the accounting organization described, or answer "None" if the statement does not correctly describe any of the organizations.

- (A) Private sector organization that establishes accounting standards.
- (B) A professional organization that establishes standards for the conduct of professional services other than audits.
- (C) A government organization that establishes financial reporting requirements for publicly-held companies in the United States.
- (D) A federal government agency that audits many other agencies of the federal government and reports its findings to Congress.
- (E) A professional organization dedicated to the improvement of accounting education, research, and practice.
- (F) A professional organization that influences the concepts and ethical practice of management accounting.
- (G) A professional organization that establishes global accounting standards.

- (A) Financial Accounting Standards Board
- (B) American Institute of CPAs
- (C) Securities and Exchange Commission
- (D) None (The statement describes the Government Accountability Office)
- (E) American Accounting Association
- (F) Institute of Management Accountants
- (G) International Accounting Standards Board

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

List seven groups that would typically use financial information.

1. Investors;
2. Creditors;
3. Managers;
4. Owners;
5. Customers;
6. Employees;
7. Regulators.

References

Essay

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties- primarily investors and creditors-in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium

Learning Objective:
01-04 Explain the importance of accounting information for internal parties- primarily management-in terms of the objectives and the characteristics of that information.

115. Award: 1.00 point

Briefly describe the balance sheet, the income statement, and the statement of cash flows.

Balance sheet (statement of financial position) - A position statement that shows where the company stands in financial terms at a specific date.

Income statement - An activity statement that shows details and results of a company's profit-related activities for a period of time.

Statement of cash flows - An activity statement that shows the details of the company's activities involving cash during a period of time.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties-primarily investors and creditors-in terms of the objectives and the characteristics of that information.

116. Award: 1.00 point

List and briefly describe the objectives of financial reporting beginning with the most general and ending with the most specific.

(1) Provide information useful in making investment and credit decisions.

(2) Provide information useful in assessing the amount, timing, and uncertainty of future cash flows.

(3) Provide information about economic resources, claims to economic resources, and changes in resources and claims.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties-primarily investors and creditors-in terms of the objectives and the characteristics of that information.

Explain one way in which the characteristics of financial and management accounting information differ.

Financial accounting information is primarily historical in nature, while management accounting information is future-oriented.

Financial accounting information is general-purpose information designed to serve the needs of a variety of external parties.

Management accounting information is customized to the needs of a particular internal decision-maker.

The timeliness of management accounting information is critical. For financial accounting, information, completeness, and verifiability are more important than timeliness.

Financial accounting information is prepared in accordance with generally accepted accounting principles while the nature and content of management accounting information is dictated by the nature of the decision it is intended to support.

References

Essay

Learning Objective:
01-03 Explain the importance of financial accounting information for external parties- primarily investors and creditors-in terms of the objectives and the characteristics of that information.

Difficulty: 2 Medium

Learning Objective:
01-04 Explain the importance of accounting information for internal parties- primarily management-in terms of the objectives and the characteristics of that information.

118. Award: 1.00 point

What are the two things that make up a company's cash flow prospects?

Cash flow prospects are the likelihood that an enterprise will be able to provide an investor with (1) a return on the investor's investment and (2) the return of that investment.

References

Essay	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties-primarily investors and creditors-in terms of the objectives and the characteristics of that information.
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119. Award: 1.00 point

List the three financial statements that are used to communicate financial accounting information to interested external parties.

Balance sheet (Statement of financial position)
Income statement
Statement of cash flows

References

Essay	Difficulty: 1 Easy	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties-primarily investors and creditors-in terms of the objectives and the characteristics of that information.
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120. Award: 1.00 point

Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

To account for the use of long-lived equipment, estimates must be made of the lifetime and scrap value of that equipment.

References

Essay	Difficulty: 2 Medium	Learning Objective: 01-03 Explain the importance of financial accounting information for external parties-primarily investors and creditors-in terms of the objectives and the characteristics of that information.
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121. Award: 1.00 point

- (A) What is meant by the phrase "generally accepted accounting principles"?
- (B) Give the names of three organizations that currently play an active role in the development of accounting principles in the United States.

- (A) Generally accepted accounting principles provide the framework for determining what information is to be included in the financial statements and how that information is to be presented.
- (B) Financial Accounting Standards Board; Securities and Exchange Commission; American Institute of CPAs; American Accounting Association.

References

Essay

Learning Objective:
01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Difficulty: 2 Medium

Learning Objective:
01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

122. Award: 1.00 point

Briefly explain how generally accepted accounting principles (GAAP) enhance the integrity of financial accounting information.

Integrity refers to the qualities of completeness, honesty, and sincerity. GAAP provides the general framework for determining what information is included in financial statements and how this information is to be prepared and presented. This ensures that financial statements are prepared in accordance with standards that are understood by both preparers and users of the information.

References

Essay	Difficulty: 2 Medium	Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
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123. Award: 1.00 point

List and describe the six articles of the AICPA Code of Professional Conduct that guide members in performing their professional responsibilities.

(I) Responsibilities - members should exercise sensitive professional and moral judgments in all their activities.

(II) The Public Interest - members should act in a way that will serve the public interest.

(III) Integrity - members should perform all professional responsibilities with the highest sense of integrity.

(IV) Objectivity and Independence - members should maintain objectivity and be free of conflicts of interest.

(V) Due Care - members should observe the profession's technical and ethical standards.

(VI) Scope and Nature of Services - members should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

References

Essay

Learning Objective:
01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

Difficulty: 2 Medium

Learning Objective:
01-07 Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.