

Student name: _____

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

The purpose of accounting is to provide financial information about a business.

true

false

A firm's financial affairs are summarized in periodic reports called general ledgers.

true

false

In a sole proprietorship, the owner is NOT responsible for the debts of the business if the company is unable to pay.

true

false

Currently, generally accepted accounting principles are developed by the American Institute of Certified Public Accountants (AICPA).

true

false

The Securities and Exchange Commission (SEC) requires that publicly owned corporations submit financial statements to it at least one time each year.

true

false

Anyone can invest in a closely held corporation.

true

false

Managerial Accounting is any activity associated with the preparation of tax returns and the audit of those returns.

true

false

When developing GAAP, one step undertaken by the FASB includes holding public hearings where interested parties can express their opinions.

true

false

Public accountants work on the staff of federal, state, or local governmental units.

true

false

The SEC uses financial information to determine a company's tax base.

true

false

When a partner leaves the company, the partnership is dissolved and a new partnership may be formed with the remaining partners.

true

false

Accounting is used to communicate financial information and therefore is called the “language of data”.

true

false

Some users of the financial information of a business are employed by the business while others are independent, outside parties.

true

false

The certified bookkeeper designation indicates that an individual possesses the level of knowledge and skills needed to carry out all key accounting functions through the adjusted trial balance, including payroll.

true

false

Accountants provide financial information to various parties so they can make business decisions.

true

false

When a business is organized as a sole proprietorship, the owner should combine his/her personal financial information with the business financial information.

true

false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

Which of the following government agencies has the authority to suspend trading of a company's shares on stock exchanges?

Internal Revenue Service

Federal Trade Commission

Financial Accounting Standards Board

Securities and Exchange Commission

Which of the following is not one of the major types of services provided by public accounting firms?

auditing

bookkeeping

tax accounting

management advisory services

Which of the following is not a requirement for becoming a Certified Bookkeeper?

pass a national exam

obtain a certain number of college credits in accounting courses

sign a code of ethics

submit evidence satisfying an experience requirement

The separate entity assumption applies to which of the following corporate forms?

sole proprietorship

partnership

corporation

all of these answers are correct

A sole proprietorship has how many owners?

1

2

3

4

Accounting is often referred to as the language of:

business.

finance.

money.

data.

The results of the accounting process are summarized in periodic reports called:

cash budgets.

bank reconciliations.

financial statements.

worksheets.

Which of the following is not a goal of the internal controls implemented by owners and managers?

to safeguard assets

to ensure reliability of accounting data

to promote compliance with management policies and applicable laws

to reduce expenses through the use of efficient processes

The three major legal forms of business entity are the sole proprietorship, the partnership, and the:

merchandiser.

corporation.

service business.

small business.

How many owners does a partnership have?

zero

one

two or more

either one or two

Ownership in a corporation is evidenced by shares of:

stock.

assets.

liabilities.

profit.

The Securities and Exchange Commission (SEC) regulates the accounting methods and financial reporting of which types of corporations?

all

multimillion dollar

privately held

publicly owned

Which of the following must be done by an independent accountant to the financial statements submitted to the SEC by a corporation to ensure their fairness and adherence to generally accepted accounting principles?

they must be audited

they must be reviewed

they must be created

they must be read

Accountants normally choose to practice in one of three areas: public accounting, managerial accounting, or:

not-for-profit accounting.

governmental accounting.

financial accounting.

tax accounting.

A form of business entity owned by one person is called a:

limited liability company.

partnership.

corporation.

sole proprietorship.

A form of business entity owned by two or more people is called a:

corporation.

sole proprietorship.

partnership.

limited liability company.

The people, companies, or government agencies to whom a firm owes money are called:

creditors.

debtors.

purchasing agents.

partners.

The process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties is called:

accounting.

finance.

economics.

computer science.

Tax accounting is a service offered by public accounting firms that involves both tax planning and which of the following?

tax payment

tax compliance

tax avoidance

tax elimination

GAAP must be followed by publicly owned companies and are changed and refined in response to changes in the environment in which businesses operate. What does GAAP stand for?

general accounting & auditing principles

generally accepted auditing principles

governmental accounting & auditing principles

generally accepted accounting principles

The owners of a corporation are called:

officers.

employees.

stockholders or shareholders.

employers.

Which of the following is NOT an occupation with similar job duties to accountants and auditors?

budget analyst

cost estimator

actuary

personal financial advisor

Managerial accountants usually do which of the following?

audit financial statements

prepare and audit tax returns

prepare internal reports for management

investigate companies for possible violations of law

Identify which of the following parties would not be involved in maintaining internal controls.

employees

managers

owners

banks

An example of an economic entity is:

a town.

a business.

a politician.

a church.

The form of a business organization that is not affected by the withdrawal or death of an owner and can continue indefinitely is the:

sole proprietorship.

partnership.

corporation.

nonprofit organization.

Which of the following is NOT a goal of an accounting system?

to accumulate data about a firm's financial affairs

to classify data about a firm's financial affairs in a meaningful way

to interpret the relative success of a business through the examination of data about its financial affairs

to summarize data about a firm's financial affairs in periodic reports called financial statements

Which of the following is NOT a task undertaken by the accountant within an organization?

establish the records and procedures that make up the accounting system

supervise the operations of the accounting system

interpret the financial information that results from the accounting system

create generally accepted accounting principles upon which the accounting system is based

The Financial Accounting Standards Board is responsible for:

auditing financial statements.

developing generally accepted accounting principles.

establishing accounting systems for businesses.

making recommendations to the Securities and Exchange Commission.

The government agency that has final authority over the financial reporting of publicly owned corporations is the:

Securities and Exchange Commission.

Federal Trade Commission.

Internal Revenue Service.

Financial Accounting Standards Board.

The separate entity assumption dictates that which of the following should be kept separate?

a firm's financial records and an owner's personal financial records

a firm's physical location and an owner's home

the financial records of different subsidiaries within a single firm

a firm's financial records for U.S.-based locations and its financial records for international locations

All financial statements submitted to the SEC by publicly owned corporations must include an auditor's report prepared by:

an internal auditor.

the firm's managerial accountant.

an independent certified public accountant.

anyone in the accounting department.

Which of the following is NOT an activity performed by managerial accountants?

preparing financial statements

conducting independent audits of financial statements

preparing tax forms

interpreting financial information

The corporations whose stock can be bought and sold on stock exchanges and in over-the-counter markets are referred to as:

privately owned corporations.

closely held corporations.

publicly owned corporations.

sole proprietorships.

Which of the following represents the correct order in which the FASB develops Statements of Financial Accounting Standards?

public hearings, discussion memorandum, exposure draft, vote

exposure draft, discussion memorandum, public hearings, vote

discussion memorandum, public hearings, exposure draft, vote

discussion memorandum, exposure draft, public hearings, vote

Owners are not personally responsible for the debts of the business if the form of business organization is a:

sole proprietorship.

partnership.

corporation.

nonprofit organization.

Identify the form of business that is considered a separate legal entity.

a sole proprietorship

a corporation

a limited liability partnership

a partnership

Identify the *advantages* of forming a business as an S Corporation.

owners avoid double taxation and owners have limited liability

owners are personally liable for all corporate debt and owners avoid double taxation

owners have limited liability and corporate earnings are tax free

owner is personally responsible for debts of the business and earnings are reported directly on owner's personal tax return

Which of the following is the purpose of financial statements?

to periodically summarize data about a firm's financial affairs

to compare a firm's performance to that of its competitors

to present historical data of a company

to analyze the future financial prospects of a firm

Which of the following is NOT part of the process of accounting for financial information?

recording

identifying

communicating

classifying

Which of the following is a true statement in regards to the International Accounting Standards Board?

The IASB deals with issues caused by the lack of uniform accounting principles existing in different countries

The IASB was created by the American Accounting Association

The IASB develops all accounting principles to be used in the United States

The IASB has the authority to audit financial statements of all US corporations

Which of the following is NOT a service of public accounting firms?

auditing

tax accounting

management advisory services

investment services

Which of the following accurately describes tax compliance?

giving advice to clients on how to reduce their tax liability

helping clients improve their business performance

helping clients improve their information systems

preparing tax returns and the audit of those returns by the IRS

Tax planning includes:

preparing tax returns.

auditing tax returns.

correcting tax returns.

suggesting actions to reduce tax liability.

Managerial accounting is:

public accounting.

government accounting.

private accounting.

tax accounting.

The following are all government agencies **except** the:

SEC.

AICPA.

IRS.

FBI.

Which of the following did NOT result from the Sarbanes-Oxley Act?

the creation of a five-member Public Company Accounting Oversight Board

the reduction of the “Big Five” accounting firms to the “Big Four”

the requirement that chief executives and chief financial officers of publicly-traded corporations certify their financial statements

the requirement that accounting firms maintain the same lead auditor for a company for at least ten years

Owners and managers need financial information in order to:

grant loans.

issue credit.

collect taxes.

make decisions.

The Sarbanes-Oxley Act includes rules on:

auditor retention.

auditor reliability.

auditor rotation.

auditor reporting.

A form of the partnerships business entity is:

LLP.

LLC.

INP.

DBA.

GAAP are developed by what body?

FASB

SEC

AICPA

IRS

The review of financial statements to assess their fairness and adherence to GAAP is:

accounting.

preparation.

compliance.

auditing.

Management advisory services are designed to help:

government agencies.

clients.

employers.

creditors.

An independent accountant who is licensed by the state and provides accounting services to the public for a fee is a:

CIA.

CFE.

CMA.

CPA.

The Financial Accounting Standards Board has the authority to develop generally accepted accounting principles. Choose the option below that contains the steps used by the FASB in developing GAAP steps include:

publishing a notice in the newspaper, seeking public opinion, and issuing a statement of principle.

issuing a discussion memorandum, filing a legal draft, and notifying the SEC.

filing a complaint with the SEC, issuing an internal report, and issuing a statement of principle.

issuing a discussion memorandum, issuing an exposure draft, and issuing a statement of principle.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

What is the “language of business?” List three groups who use this financial information.

Wilson Company of country X and Northern Industries of country Y have issued financial statements in compliance with the accounting principles of their respective countries. They would like to work together on a project and need to compare their current financial statements prior to starting the project. However, the accounting principles of the two countries differ. What organization might they turn to regarding this issue? (Give both the full name of the organization and its acronym.) What is the function of this organization?

You have just entered college and decide to pursue a career as a certified bookkeeper. What three requirements must you satisfy to receive this designation?

There are three general services public accountants offer. List and briefly describe each.

List at least five activities performed by managerial accountants.

Having enjoyed multiple accounting courses in college, you have decided to pursue a CPA license. What requirements must you fulfill to achieve this certification?

How do sole proprietorships, partnerships, and corporations differ?

List three individuals or groups who use financial information to make decisions about a firm. For each listed, give an example of why they would need the information.

List the “Big Four” public accounting firms in the United States.

Audited financial statements include an auditor’s report. What does this auditor’s report contain?

List at least three of the provisions of the Sarbanes-Oxley Act.

What determines the independence of Certified Public Accountants (CPAs)?

Name three governmental agencies that employ a large number of accountants.

Answer Key

Test name: Ch1_College Accounting_17e

TRUE

FALSE

FALSE

FALSE

TRUE

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FALSE

D

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Essay

Accounting is the language of business. The groups who use this information are owners and managers, suppliers, banks, tax authorities, regulatory agencies and investors, customers, and employees and unions.

Essay

Organization: International Accounting Standards Board (IASB). The function of the IASB is to deal with issues caused by the lack of uniform accounting principles and make recommendations to enhance comparability.

Essay

To become a Certified Bookkeeper you must pass the national certified bookkeeper exam, sign a code of ethics, and submit evidence of at least two years of full-time bookkeeping experience or 3,000 hours of part-time or freelance experience.

Essay

Auditing: the review of financial statements to assess their fairness and adherence to GAAP.

Tax accounting: tax compliance-dealing with the preparation of tax returns and the audit of those returns; tax planning-giving advice to clients on how to structure their financial affairs in order to reduce their tax liability.

Management advisory services: helping clients improve their information systems or their business performance.

Essay

Establishing accounting policies, managing the accounting system, preparing financial statements, interpreting financial information, providing financial advice to management, preparing tax forms, performing tax planning services, and preparing internal reports for management.

Essay

To become a Certified Public Accountant (CPA) you must have completed a certain number of college credits in accounting courses, demonstrate good personal character, pass the Uniform CPA Examination, and fulfill the experience requirements of the state of practice.

Essay

Sole proprietorships-business entities owned by one person who is responsible for the business debts and taxes. The business ends when the owner is no longer willing or able to keep the business going. Partnerships-business entities owned by two or more individuals who are individually, and as a group, responsible for the partnership's debts and taxes. A partnership ends when one or more partners withdraw or die. Corporations-business entities with one or more owners which can continue indefinitely unless bankruptcy occurs or the stockholders vote to liquidate. Stockholders (owners) are not personally responsible for the corporation's debts and can only lose the amount they invested.

Essay

Owners and managers-to evaluate results of operations or to make decisions about the future. Suppliers-to assess the ability of the firm to pay its bills and to set credit limits. Banks-to determine whether the firm can repay the loan in a timely manner. Tax authorities-to determine the tax base of the firm. Regulatory agencies and investors-to fulfill the requirements of the law. Customers-to determine whether the firm will continue to operate in the future and support its products/customers. Employees and unions-to negotiate wages and benefits.

Essay

Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers

Essay

It contains the auditor's opinion regarding the fair presentation of the operating results and financial position of the business. The report also confirms the financial information is prepared in conformity with GAAP.

Essay

The act tightens regulation of financial reporting by publicly held companies and their accountants and auditors; creates a five-member Public Company Accounting Oversight Board to oversee the accounting profession which in turn is overseen by the SEC; includes rules on consulting services, auditor rotation, criminal penalties, corporate governance, and securities regulation; requires auditors to maintain all audit or review work papers for seven years; requires chief executives and chief financial officers of publicly traded corporations to certify their financial statements; requires quicker disclosure of material changes in a firm's financial position; provides protection for whistle blowers; and lengthens the time investors have to file lawsuits for securities fraud.

Essay

They are not employees of the companies they audit and they do not have a financial interest in those companies.

Essay

Any of the following agencies may be named: The Securities and Exchange Commission, the Internal Revenue Service, the Federal Bureau of Investigation, and Homeland Security