

Student name: \_\_\_\_\_

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

true

false

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

true

false

All internal control systems need to be monitored.

true

false

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

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

true

false

Return on investment is the same as return of investment.

true

false

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

true

false

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

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

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

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

true

false

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

true

false

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

true

false

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

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

true

false

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

true

false

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

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

true

false

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

true

false

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

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

true

false

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

true

false

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

true

false

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

true

false

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

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

true

false

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

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

true

false

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

true

false

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.

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.

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.

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.

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.

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.

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.

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

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.



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

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.

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.

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.

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 \$4,000 to help get the company started, and they have promised to repay your \$4,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

\$400

\$4,000

\$3,600

\$4,400

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 \$9,500 to help get the company started, and they have promised to repay your \$9,500 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

\$10,450

\$950

\$9,500

\$8,550

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

Sales budget

Statement of financial position (balance sheet)

Income statement

Statement of cash flows

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

Dividends

Repayment of a loan

Purchase of an asset

Securing a loan

The financial statements of a business entity:

Include the statement of financial position (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.

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

Owners

Creditors

Labor unions

Managers

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 the current market values of their investments in a particular company.

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.

Which financial statement is prepared as of a specific date?

The statement of financial position (balance sheet)

The income statement

The statement of cash flows

The statement of financial position (balance sheet), income statement, and statement of cash flows are all for a period of time rather than at a specific date.

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.

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

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

The statement of financial position (balance sheet)

The income statement

The statement of cash flows

Consolidated statement of stockholders' equity

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.

Financial statements may be prepared for which time period?

One year

Less than one year

More than one year

Any time period

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

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.

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.

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

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.

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

Statement of financial position (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.

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

Statement of financial position (balance sheet).

Income tax return.

Income statement.

Statement of cash flows.

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.

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

Statement of financial position (balance sheet)

Statement of cash flows

Income statement

The federal income tax return

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.

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.

Which of the following describes the statement of financial position (balance sheet)?

A position statement that shows the company's economic resources (assets) and claims to those resources (liabilities and owners' equity) at a specific date



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

An activity statement that shows the company's cash-related activities during a period of time

None of these answer choices describe the statement of financial position (balance sheet).

Which of the following describes the income statement?

A position statement that shows the company's economic resources (assets) and claims to those resources (liabilities and owners' equity) at a specific date

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

An activity statement that shows the company's cash-related activities during a period of time

None of these answer choices describe the income statement.

Which of the following describes the statement of cash flows?

A position statement that shows the company's economic resources (assets) and claims to those resources (liabilities and owners' equity) at a specific date

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

An activity statement that shows the company's cash-related activities during a period of time

None of these answer choices describe the statement of cash flows.

Which of the following describes how financial reporting differs from financial statements?

Financial reporting is broader than financial statements.

Financial reporting is a subset of the total information encompassed by financial statements.

Investors, creditors, and other external users of financial information can only obtain information about an enterprise by reviewing its formal financial statements.

All of these answer choices are correct.

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.

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.

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

Investors.

Managers.

Chief Financial Officer.

Chief Executive Officer.

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

Store manager

Chief executive officer

Creditor

Chief financial officer

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.

Which of the following represents a critical component of the internal decision-making environment that provides management the means to achieve the goals and objectives of the enterprise?

Management accounting information

Financial accounting information

Financial statements

Financial reporting

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

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.

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.

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.

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.

The viability of the global financial markets, and the accounting reporting systems that feed them, depends upon:

Corporate governance.

Financial integrity.

Public trust.

A sense of responsibility.

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.

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).

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.

The standards that provide the general framework for determining what information is included in financial statements and how this information is to be prepared and presented are referred to as:

The conceptual framework.

Generally accepted accounting principles.

Statements of financial accounting concepts.

American standards for certified public accountants.

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.

Establishing international accounting standards is the responsibility of:

AICPA.

IASB.

SEC.

AAA.

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.

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

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).

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).

Generally accepted accounting principles are the general framework for determining what information is included in:

Income tax returns.

All accounting reports.

Reports to federal and state regulatory agencies.

Financial statements.

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.

The Accounting Standards Codification was developed by:

The Financial Accounting Standards Board.

Certified public accountants.

The Securities and Exchange Commission.

The Internal Revenue Service.

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.

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.

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.

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.

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.

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)

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.

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

Which of the following statements about the integrity of financial information is correct?

The existence of generally accepted accounting principles (GAAP) eliminates the need for professional judgment except in very unusual circumstances.

The provisions of the Sarbanes-Oxley Act apply to not only to 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 their position rather than become involved in the distribution of financial statements indicating insolvency.

Which organization best serves the professional needs of a CPA?

FASB

AICPA

SEC

AAA

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

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.

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.

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.

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.

The designation of CPA is given by:

Universities.

States.

The AICPA.

The SEC.

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.

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).

## **Answer Key**

Test name: Ch1 Algorithmic\_Financial Managerial Accounting\_20e

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