

Chapter 1--The Demand for and Supply of Financial Accounting Information

Student: _____

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True False

2. The need for relevant and reliable financial information stems from the needs of the internal and external stakeholder's.

True False

3. The mission of the Securities and Exchange Commission is to protect investors, maintain orderly, and efficient markets, and assist in the formation of capital.

True False

4. The SEC uses its authority to establish accounting standards, while also enforcing regulations on companies, exchanges, and investors.

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6. FASB's Emerging Issues Task Force was established to identify issues in which it felt FASB needed to address.

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11. The balance sheet is a snapshot of a company’s financial position at a particular date and time.

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12. The statement of shareholder’s equity reports the effects of Accumulated Other Comprehensive income.

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13. “In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.” This is the Integrity principle of the AICPA Code of Professional Conduct.

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15. Creditors' information needs revolve around all of the following decisions, *except*

- A. extending credit
- B. maintaining a credit relationship
- C. not extending credit
- D. investing in credit instruments

16. Which of the following is an *internal* stakeholder of a company's financial information?

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17. After formulating a strategic plan what three types of activities will a company engage in?

- A. Planning, operating, and selling
- B. Investing, operating, and selling
- C. Financing, investing, and operating
- D. Operating, planning, and financing

18. What is Financial Reporting?

- A. The process of communicating internal accounting information to existing and potential investors, creditors, lenders, and other external decision makers.
- B. The process of communicating financial accounting information to existing and potential investors, creditors, lenders, and other external decision makers.
- C. The process of preparing financial accounting information to existing and potential investors, managers, and employees.
- D. The process of communicating the strategic plan to existing and potential investors, creditors, lenders, and other external decision makers.

19. When making decisions, equity investors are interested in assessing

- A. the company's ability to generate cash flows.
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21. As a potential equity investor, what would you *least* be interested in a company prior to making and investment decision?

- A. What differentiates them from their competition?
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- C. Whether they have positive cash flows?
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22. The primary reason that financial accounting and managerial accounting have somewhat different objectives is because they

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23. Information asymmetry problems arise because management's behavior

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- B. will always follow classic agency law
- C. may not always be in the best interests of the owners (stockholders)
- D. as agents will always be in the best interests of the owners (stockholders)

24. The organization that has legal authority to prescribe accounting principles and reporting practices for all corporations issuing publicly traded securities within the U.S. capital markets is?

- A. Accounting Principles Board
- B. Securities and Exchange Commission
- C. Financial Accounting Standards Board
- D. Committee on Accounting Procedure

25. Which organization has the most legal authority?

- A. Financial Accounting Standards Board
- B. Accounting Standards Executive Committee
- C. Governmental Accounting Standards Board
- D. Securities and Exchange Commission

26. Three major organizations in the private and public sector develop U.S. and international GAAP. They include all of the following *except* the

- A. EU (European Union)
- B. SEC (Securities and Exchange Commission)
- C. FASB (Financial Accounting Standards Board)
- D. IASB (International Accounting Standards Board)

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- A. all companies issuing publicly traded securities
 - B. all companies issuing any type of securities
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28. Which of the following is NOT a major standard-setting body responsible for the establishment of U.S. and international GAAP (Generally Accepted Accounting Principles)?
- A. SEC (Securities Exchange Commission)
 - B. PCAOB (Public Company Accounting Oversight Board)
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- A. in its assistance to Congress with the development of tax law
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 - D. its informal review and approval of standards developed in the private sector prior to their release
30. What is the relationship between the Securities and Exchange Commission and accounting standard setting in the United States?
- A. The SEC requires all companies listed on an exchange to submit their financial statements to the SEC.
 - B. The SEC coordinates with the FASB in establishing accounting standards.
 - C. The SEC has a mandate to establish accounting standards for corporations within the U.S. capital markets.
 - D. The SEC reviews financial statements for compliance with U.S. GAAP or IFRS.
31. The Securities Exchange Act of 1934 established extensive reporting requirements for listed companies. Which is *not* a commonly required report?
- A. Form 10-Q. An extensive quarterly report, including financial statements.
 - B. Form S-2. A registration statement
 - C. Form 10-K. An extensive annual report, including financial statements
 - D. Form 8-K. A report used to describe significant events that may affect the company.

32. Which of the following statements is true?

- A. Accounting standard setting began in the United States when the AICPA formed the Committee on Accounting Procedure.
- B. Accounting standard setting began in the United States when the SEC formed the Committee on Accounting Procedure.
- C. Accounting standard setting began in the United States when the AICPA formed the Accounting Principles Board.
- D. Accounting standard setting began in the United States when the FASB formed the Committee on Accounting Procedure.

33. Which of the following statements is true?

- A. In order to remain impartial, the FASB discourages public input during development of standards.
- B. FASB accounting standards are the result of clearly defined objectives, an integrated body of theory, and the known consequences of actions.
- C. The FASB deliberates and issues accounting standards only after receiving a formal letter of request from the SEC.
- D. Accounting standards, which reflect social decisions, are often the result of compromise.

34. Going from 1938 to the present, which is the correct sequence of accounting rule-making bodies?

- A. APB-CAP-FASB
- B. CAP-FASB-APB
- C. CAP-APB-FASB
- D. FASB-APB-CAP

35. The Financial Accounting Foundation (FAF) is the parent organization of the which?

- A. AICPA (American Institute of Certified Public Accountants)
- B. AAA (American Accounting Association)
- C. SIFMA (Securities Industry and Financial Markets Association)
- D. FASB (Financial Accounting Standards Board)

36. How many FASB members are there?

- A. 5
- B. 7
- C. 21
- D. 33

37. Concerning FASB membership, which statement is *not* true?

- A. Not all members are CPAs from public practice.
- B. All members are full time and fully paid.
- C. All members are also members of the Financial Accounting Foundation.
- D. All members must sever organizational ties with their previous employer.

38. The FASB Emerging Issues Task Force issues which of the following?

- A. *Statements of Position* to influence the development of principles
- B. *Consensus Positions* on the implementation of standards
- C. *Financial Reporting Releases* on guidelines for reporting issues
- D. *Technical Bulletins* on accounting and reporting problems

39. Which pronouncements are *not* issued by the FASB?

- A. Statements of Financial Accounting Concepts
- B. Technical Bulletins
- C. Opinions
- D. Interpretations

40. Which of the following pronouncements issued by the FASB provides the lowest level of authoritative support?

- A. technical bulletins
- B. interpretations
- C. statements of financial accounting standards
- D. staff positions

41. The *FASB Accounting Standards Codification* is expected to provide all of the following benefits *except*

- A. reduce the research time necessary to solve an accounting research issue
- B. codify authoritative support such as results of academic research
- C. provide real-time updates as new standards are issued
- D. improve the usability of the authoritative accounting literature

42. What type of FASB pronouncements refined GAAP by clarifying conflicting or unclear issues relating to previously issued standards?

- A. Staff Positions
- B. Technical Bulletins
- C. Interpretations
- D. Other Pronouncements

43. What type of FASB Pronouncement carried the highest authority within GAAP, establishing the methods and procedures required on specific accounting issues?

- A. Staff Positions
- B. Statements of Financial Accounting Standards
- C. Statements of Financial Accounting Concepts
- D. Technical Bulletins

44. What type of FASB Pronouncement were to provide more timely and consistent application guidance and made to narrow and limit revisions of standards?

- A. Technical Bulletins
- B. Statements of Financial Accounting Standards
- C. Interpretations
- D. None of these choices

45. Assume that authoritative support regarding GAAP for a particular transaction is needed. A correct hierarchy of authority to be followed (highest, second, third) would be

- A. FASB Statements, AICPA Accounting Interpretations, FASB Technical Bulletins
- B. FASB Technical Bulletins, AICPA Accounting Interpretations, FASB Statements
- C. AICPA Accounting Interpretations, FASB Technical Bulletins, FASB Statements
- D. FASB Statements, FASB Technical Bulletins, AICPA Accounting Interpretations

46. The FASB Accounting Standards Codification includes six levels or components which of these is *not* a level?

- A. Area
- B. Topic
- C. Sub-paragraphs
- D. Paragraphs

47. Which of the following documents includes all of the accounting standards?

- A. Regulation S-X
- B. The FASB Conceptual Framework
- C. Statements of Financial Accounting Standards
- D. none of these

48. Conversion to IFRS reporting by all U.S. companies would be best accomplished with a transition plan for all of the following reasons *except*

- A. it would have to be a multi-year process
- B. it needs to be an orderly process with a minimum of cost and disruption to the participants
- C. certain IFRS need further improvement through continued convergence efforts
- D. careful planning would enable maximum manipulation of the IFRS for the financial benefit of the United States.

49. The agreement in 2002 by the FASB and IASB to develop high quality, compatible accounting standards that could be used by both domestic and cross-border financial reporting was called the

- A. International Accounting Standards agreement
- B. Financial Accounting Standards Board Global agreement
- C. Norwalk agreement
- D. United GAAP agreement

50. For foreign companies that issue securities in the United States to raise capital, the SEC

- A. requires these companies to file form 20-F which reconciles certain amounts reported in their financial statements with US GAAP.
- B. accepts all financial statements that use IFRS.
- C. accepts only financial statements that are fully stated under US GAAP.
- D. accepts financial statements from foreign companies that use English-language IFRS without exception.

51. What is the responsibility of the International Accounting Standards Board?

- A. IASB promotes uniform accounting standards among international countries.
- B. IASB settles accounting disputes between auditors and international companies.
- C. IASB issues standards which regulate the financial accounting and reporting of multinational corporations and then enforces through legal channels.
- D. IASB is to develop a uniform currency in which the financial transactions would be measured.

52. U.S. companies that have subsidiaries in foreign countries can file their financial statements with the SEC by using?

- A. IFRS
- B. GAAP
- C. either IFRS or GAAP
- D. IFRS for their subsidiaries and GAAP for their holdings in the United States.

53. What is the name of the parent organization to the International Accounting Standards Board?

- A. IASB (International Accounting Standards Board)
- B. IFRS (International Financial Reporting Standards)
- C. FASB (Financial Accounting Standards Board)
- D. IFRIC (International Financial Reporting Standards Interpretations Committee)

54. Which of the following is NOT a major standard-setting body responsible for the establishment of U.S. and international GAAP (Generally Accepted Accounting Principles)?

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

55. Certain U.S. accounting standards have been, and will be, amended to aid in the international convergence process. The process of changing these standards usually involves

- A. a short deliberation followed by a vote of the U.S. Congress
- B. acceptance of the change by the Internal Revenue Service
- C. rejecting all existing standards and developing an entirely new concept
- D. selecting the best standard between existing U.S. and international standards

56. Notes to financial statements provide

- A. discussions that further explain items shown in the financial statements
- B. comparative financial information with the previous year
- C. management's discussions about plans for the future
- D. the report of the independent auditors

57. What financial statement is considered the cornerstone of financial reporting?

- A. income statement
- B. statement of cash flows
- C. statement of retained earnings
- D. balance sheet

58. The accounting equation is

- A. $\text{Assets} + \text{Liabilities} = \text{Stockholder's Equity}$
- B. $\text{Assets} - \text{Liabilities} = \text{Stockholder's Equity}$
- C. $\text{Assets} = \text{Liabilities} - \text{Stockholder's Equity}$
- D. $\text{Assets} + \text{Stockholders' Equity} = \text{Liabilities}$

59. Which statement measures and reports the financial results of a company's performance for a period of time?
- A. income statement
 - B. balance sheet
 - C. statement of cash flows
 - D. statement of financial position
60. The four major financial statements of a corporation consist of the
- A. income statement, balance sheet, statement of cash flows, and statement of changes in stockholders' equity
 - B. balance sheet, statement of cash flows, statement of retained earnings, and income statement
 - C. income statement, statement of cash flows, statement of financial flexibility, and balance sheet
 - D. statement of cash flows, balance sheet, income statement, and statement of capital equity
61. The Management Discussion and Analysis section of the financial statements discusses what important topics?
- A. Business risk factors associated with the company.
 - B. Management provides insight into key decisions implemented during that time period and future developments.
 - C. Management utilizes this area as a forum to discuss strategic motives.
 - D. All of these choices
62. The correct order of presentation for the statement of cash flows is?
- A. Operating, Investing, Financing
 - B. Financing, Operating, Investing
 - C. Investing, Financing, Operating
 - D. Operating, Financing, Investing
63. The correct presentation of the income statement is?
- A. Revenues - expenses + gains - losses = Net Income
 - B. Revenues-expenses = Net income - losses + gains
 - C. Revenues- losses - expenses + gains = Net Income
 - D. Revenues + gains - losses -expenses = Net Income
64. Contributions that are paid to owners would affect both the
- A. balance sheet and statement of cash flows
 - B. balance sheet and income statement
 - C. income statement and statement of changes in equity
 - D. income statement and statement of cash flows

65. Which of the following transactions would be reported in the cash flows from investing activities section in the statement of cash flows for the Harlem Company?
- A. Harlem sold a piece of land for \$600,000.
 - B. Harlem borrowed \$3,000,000
 - C. Harlem issued common stock for \$700,000 to investors.
 - D. Harlem paid a cash dividend to its stockholders.
66. Which Principle of the AICPA Code of Professional Conduct is: As a member one should continually strive to improve competence, observe all ethical standards and provide services to the best of their ability?
- A. The Public Interest
 - B. Responsibilities
 - C. Scope and Nature of Services
 - D. Due Care
67. Auditors face ethical issues because
- A. GAAP permits various standards to be used to produce profits
 - B. auditors may express an opinion that may cause difficulty to employees of a company
 - C. auditors may not discover insider trading
 - D. GAAP does not permit fraud
68. Unethical actions include which of the following?
- A. polluting lakes and streams
 - B. overcharging on government contracts
 - C. securities fraud
 - D. All of these choices
69. The stated principles of the AICPA Code of Professional Conduct do NOT include
- A. Integrity
 - B. Honesty
 - C. Objectivity and Independence
 - D. Responsibilities
70. Which of the following is not considered an ethical issue in accounting?
- A. Biased financial statement presentation
 - B. Accelerated revenue recognition
 - C. Earnings manipulation
 - D. Industry practices

71. The AICPA Code of Professional Conduct includes which of the following principles?

- A. Professionalism
- B. Conservatism
- C. Objectivity
- D. Quality

72. Which Principle of the AICPA Code of Professional Conduct is: A member should be free from conflicts of interest and be objective. A member should be free of bias and provide auditing and attestation services in an independent manner?

- A. Objectivity and Independence
- B. Integrity
- C. Responsibilities
- D. Due Care

73. Which Principle of the AICPA Code of Professional Conduct is: Members should perform all of their professional responsibilities with the highest sense of integrity possible. This ensures trust and public confidence in the profession?

- A. Scope and Nature of Services
- B. Due Care
- C. Integrity
- D. Objectivity and Independence

74. Listed below are several types of pronouncements that the FASB issues. Following the list is a series of descriptive statements.

- a. Statements of Financial Accounting Standards
- b. Interpretations
- c. Technical Bulletins
- d. Statements of Financial Accounting Concepts
- e. Guide for Implementation

- _____ 1. Establishes a theoretical foundation upon which to base financial accounting and reporting standards.
- _____ 2. Provides clarification of conflicting or unclear issues relating to previously issued pronouncements.
- _____ 3. FASB Q's and A's.
- _____ 4. Establishes generally accepted accounting principles.
- _____ 5. Provides guidance on accounting and reporting problems related to an underlying standard.

Required:

Match each pronouncement with its descriptive statement by placing the appropriate letter in the space provided.

75. Listed below are the ten steps the FASB goes through in issuing a new Statement.

- | | | |
|-------|----|-----------------------------|
| _____ | a. | Conduct research |
| _____ | b. | Deliberate on findings |
| _____ | c. | Hold public hearings |
| _____ | d. | Identify topic |
| _____ | e. | Issue Discussion Memorandum |
| _____ | f. | Issue Exposure Draft |
| _____ | g. | Issue Statement |
| _____ | h. | Modify Exposure Draft |
| _____ | i. | Vote |

Required:

Indicate the proper sequence of these steps.

76. Listed below are the Six Principles of AICPA's Code of Professional Conduct.

- | | |
|----|------------------------------|
| a. | Responsibilities |
| b. | Scope and Nature of Services |
| c. | Due Care |
| d. | The Public Interest |
| e. | Objectivity and Independence |
| f. | Integrity |

Required:

Match each principle with its descriptive statement by placing the appropriate letter in the space provided.

_____	1)	A member should be free from conflicts of interest and be objective. A member should be free of bias and provide auditing and attestation services in an independent manner					
_____	2)	A member in public practice should always consider the CPC in determining the nature and scope of services in which they have been asked to provide.					
_____	3)	Members should perform all of their professional responsibilities with the highest sense of integrity possible. This ensures trust and public confidence in the profession.					
_____	4)	In order to always honor the profession members should consider their actions when serving the interests of the public, and act in accordance to maintain public confidence.					
_____	5)	As a member one should continually strive to improve competence, observe all ethical standards and provide services to the best of their ability.					
_____	6)	Members should exercise sensitive professional and moral judgments in all their activities as a responsibility to the profession.					

77. What types of resources do companies compete for and why?

78. The demand for accounting information arises from the informational needs of various stakeholders.

Required

List five internal stakeholders or external stakeholders.

79. What is the mission of the Securities and Exchange Commission? How did the SEC come into being?

80. What is the responsibility of FASB?

81. The FASB Codification consists of six components or levels, what are the components or levels?

82. What are the FASB operating procedures when reviewing whether to issue a new standard?

83. The FASB and IASB have some ambitious accounting standards projects to complete prior to their convergence. List five of the projects currently on the agenda.

84. Define:

- 1) What are assets?
- 2) What are liabilities?
- 3) What is shareholder's equity?
- 4) What financial statement would one find assets, liabilities and shareholder's equity?

85. Define:

- 1) What are revenues?
- 2) What are expenses?
- 3) What is net income?
- 4) What financial statement would one find revenues, expenses, and net income?

86. What are the six areas covered in the AICPA Code of Professional Conduct?

87. Assume you are tutoring a beginning accounting student who tells you that the members of the FASB must have a great deal of power because they have the authority to issue standards that dictate accounting procedure.

Required:

Explain why accounting standards are the result of compromise and how such compromises are reached.

88. Prior to 2009, the FASB issued several types of pronouncements which had differing levels of authority. Explain the differing types of pronouncements, provide a brief explanation as to what changed after 2009 and why is it still important today?

89. The SEC has several reporting choices. It can require that U.S. companies use U.S. GAAP in their financial statement filings. Alternatively, the SEC can require or allow U.S. companies to use IFRS in their financial statement filings. Many issues and complexities surround the use of IFRS.

Required:

Identify and discuss three of the potential problems to be considered by the SEC in deliberating this proposal.

90. Your accounting instructor allows you to look at his grade book in order to verify the points you have received to date in the final course taken by all accounting majors. While looking at your points, you notice that your best friend's score on the last exam was recorded incorrectly. He received a 68 on the test but it has been recorded as an 86 in the grade book. Your friend needs a passing grade in this class in order to graduate. If the correct score is recorded, he might not have enough points to pass the course.

Required:

Discuss the steps you should take to deal with this ethical dilemma using three ethical criteria. You need not indicate the ethical action you would take.

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- A. The SEC requires all companies listed on an exchange to submit their financial statements to the SEC.
- B. The SEC coordinates with the FASB in establishing accounting standards.
- C.** The SEC has a mandate to establish accounting standards for corporations within the U.S. capital markets.
- D. The SEC reviews financial statements for compliance with U.S. GAAP or IFRS.

31. The Securities Exchange Act of 1934 established extensive reporting requirements for listed companies. Which is *not* a commonly required report?

- A. Form 10-Q. An extensive quarterly report, including financial statements.
- B.** Form S-2. A registration statement
- C. Form 10-K. An extensive annual report, including financial statements
- D. Form 8-K. A report used to describe significant events that may affect the company.

32. Which of the following statements is true?

- A. Accounting standard setting began in the United States when the AICPA formed the Committee on Accounting Procedure.
- B. Accounting standard setting began in the United States when the SEC formed the Committee on Accounting Procedure.
- C. Accounting standard setting began in the United States when the AICPA formed the Accounting Principles Board.
- D. Accounting standard setting began in the United States when the FASB formed the Committee on Accounting Procedure.

33. Which of the following statements is true?

- A. In order to remain impartial, the FASB discourages public input during development of standards.
- B. FASB accounting standards are the result of clearly defined objectives, an integrated body of theory, and the known consequences of actions.
- C. The FASB deliberates and issues accounting standards only after receiving a formal letter of request from the SEC.
- D. Accounting standards, which reflect social decisions, are often the result of compromise.

34. Going from 1938 to the present, which is the correct sequence of accounting rule-making bodies?

- A. APB-CAP-FASB
- B. CAP-FASB-APB
- C. CAP-APB-FASB
- D. FASB-APB-CAP

35. The Financial Accounting Foundation (FAF) is the parent organization of the which?

- A. AICPA (American Institute of Certified Public Accountants)
- B. AAA (American Accounting Association)
- C. SIFMA (Securities Industry and Financial Markets Association)
- D. FASB (Financial Accounting Standards Board)

36. How many FASB members are there?

- A. 5
- B. 7
- C. 21
- D. 33

37. Concerning FASB membership, which statement is *not* true?

- A. Not all members are CPAs from public practice.
- B. All members are full time and fully paid.
- C. All members are also members of the Financial Accounting Foundation.
- D. All members must sever organizational ties with their previous employer.

38. The FASB Emerging Issues Task Force issues which of the following?

- A. *Statements of Position* to influence the development of principles
- B. *Consensus Positions* on the implementation of standards
- C. *Financial Reporting Releases* on guidelines for reporting issues
- D. *Technical Bulletins* on accounting and reporting problems

39. Which pronouncements are *not* issued by the FASB?

- A. Statements of Financial Accounting Concepts
- B. Technical Bulletins
- C. Opinions
- D. Interpretations

40. Which of the following pronouncements issued by the FASB provides the lowest level of authoritative support?

- A. technical bulletins
- B. interpretations
- C. statements of financial accounting standards
- D. staff positions

41. The *FASB Accounting Standards Codification* is expected to provide all of the following benefits *except*

- A. reduce the research time necessary to solve an accounting research issue
- B. codify authoritative support such as results of academic research
- C. provide real-time updates as new standards are issued
- D. improve the usability of the authoritative accounting literature

42. What type of FASB pronouncements refined GAAP by clarifying conflicting or unclear issues relating to previously issued standards?

- A. Staff Positions
- B. Technical Bulletins
- C. Interpretations
- D. Other Pronouncements

43. What type of FASB Pronouncement carried the highest authority within GAAP, establishing the methods and procedures required on specific accounting issues?

- A. Staff Positions
- B. Statements of Financial Accounting Standards**
- C. Statements of Financial Accounting Concepts
- D. Technical Bulletins

44. What type of FASB Pronouncement were to provide more timely and consistent application guidance and made to narrow and limit revisions of standards?

- A. Technical Bulletins
- B. Statements of Financial Accounting Standards
- C. Interpretations
- D. None of these choices**

45. Assume that authoritative support regarding GAAP for a particular transaction is needed. A correct hierarchy of authority to be followed (highest, second, third) would be

- A. FASB Statements, AICPA Accounting Interpretations, FASB Technical Bulletins
- B. FASB Technical Bulletins, AICPA Accounting Interpretations, FASB Statements
- C. AICPA Accounting Interpretations, FASB Technical Bulletins, FASB Statements
- D. FASB Statements, FASB Technical Bulletins, AICPA Accounting Interpretations**

46. The FASB Accounting Standards Codification includes six levels or components which of these is *not* a level?

- A. Area
- B. Topic
- C. Sub-paragraphs**
- D. Paragraphs

47. Which of the following documents includes all of the accounting standards?

- A. Regulation S-X
- B. The FASB Conceptual Framework
- C. Statements of Financial Accounting Standards
- D. none of these**

48. Conversion to IFRS reporting by all U.S. companies would be best accomplished with a transition plan for all of the following reasons *except*

- A. it would have to be a multi-year process
- B. it needs to be an orderly process with a minimum of cost and disruption to the participants
- C. certain IFRS need further improvement through continued convergence efforts
- D.** careful planning would enable maximum manipulation of the IFRS for the financial benefit of the United States.

49. The agreement in 2002 by the FASB and IASB to develop high quality, compatible accounting standards that could be used by both domestic and cross-border financial reporting was called the

- A. International Accounting Standards agreement
- B. Financial Accounting Standards Board Global agreement
- C.** Norwalk agreement
- D. United GAAP agreement

50. For foreign companies that issue securities in the United States to raise capital, the SEC

- A. requires these companies to file form 20-F which reconciles certain amounts reported in their financial statements with US GAAP.
- B. accepts all financial statements that use IFRS.
- C. accepts only financial statements that are fully stated under US GAAP.
- D.** accepts financial statements from foreign companies that use English-language IFRS without exception.

51. What is the responsibility of the International Accounting Standards Board?

- A.** IASB promotes uniform accounting standards among international countries.
- B. IASB settles accounting disputes between auditors and international companies.
- C. IASB issues standards which regulate the financial accounting and reporting of multinational corporations and then enforces through legal channels.
- D. IASB is to develop a uniform currency in which the financial transactions would be measured.

52. U.S. companies that have subsidiaries in foreign countries can file their financial statements with the SEC by using?

- A. IFRS
- B.** GAAP
- C. either IFRS or GAAP
- D. IFRS for their subsidiaries and GAAP for their holdings in the United States.

53. What is the name of the parent organization to the International Accounting Standards Board?

- A. IASB (International Accounting Standards Board)
- B. IFRS (International Financial Reporting Standards)**
- C. FASB (Financial Accounting Standards Board)
- D. IFRIC (International Financial Reporting Standards Interpretations Committee)

54. Which of the following is NOT a major standard-setting body responsible for the establishment of U.S. and international GAAP (Generally Accepted Accounting Principles)?

- A. SEC (Securities Exchange Commission)
- B. PCAOB (Public Company Accounting Oversight Board)**
- C. FASB (Financial Accounting Standards Board)
- D. IASB (International Accounting Standards Board)

55. Certain U.S. accounting standards have been, and will be, amended to aid in the international convergence process. The process of changing these standards usually involves

- A. a short deliberation followed by a vote of the U.S. Congress
- B. acceptance of the change by the Internal Revenue Service
- C. rejecting all existing standards and developing an entirely new concept
- D. selecting the best standard between existing U.S. and international standards**

56. Notes to financial statements provide

- A. discussions that further explain items shown in the financial statements**
- B. comparative financial information with the previous year
- C. management's discussions about plans for the future
- D. the report of the independent auditors

57. What financial statement is considered the cornerstone of financial reporting?

- A. income statement
- B. statement of cash flows
- C. statement of retained earnings
- D. balance sheet**

58. The accounting equation is

- A. $\text{Assets} + \text{Liabilities} = \text{Stockholder's Equity}$
- B. $\text{Assets} - \text{Liabilities} = \text{Stockholder's Equity}$**
- C. $\text{Assets} = \text{Liabilities} - \text{Stockholder's Equity}$
- D. $\text{Assets} + \text{Stockholders' Equity} = \text{Liabilities}$

59. Which statement measures and reports the financial results of a company's performance for a period of time?

- A. income statement
- B. balance sheet
- C. statement of cash flows
- D. statement of financial position

60. The four major financial statements of a corporation consist of the

- A. income statement, balance sheet, statement of cash flows, and statement of changes in stockholders' equity
- B. balance sheet, statement of cash flows, statement of retained earnings, and income statement
- C. income statement, statement of cash flows, statement of financial flexibility, and balance sheet
- D. statement of cash flows, balance sheet, income statement, and statement of capital equity

61. The Management Discussion and Analysis section of the financial statements discusses what important topics?

- A. Business risk factors associated with the company.
- B. Management provides insight into key decisions implemented during that time period and future developments.
- C. Management utilizes this area as a forum to discuss strategic motives.
- D. All of these choices

62. The correct order of presentation for the statement of cash flows is?

- A. Operating, Investing, Financing
- B. Financing, Operating, Investing
- C. Investing, Financing, Operating
- D. Operating, Financing, Investing

63. The correct presentation of the income statement is?

- A. Revenues - expenses + gains - losses = Net Income
- B. Revenues-expenses = Net income - losses + gains
- C. Revenues- losses - expenses + gains = Net Income
- D. Revenues + gains - losses -expenses = Net Income

64. Contributions that are paid to owners would affect both the

- A. balance sheet and statement of cash flows
- B. balance sheet and income statement
- C. income statement and statement of changes in equity
- D. income statement and statement of cash flows

65. Which of the following transactions would be reported in the cash flows from investing activities section in the statement of cash flows for the Harlem Company?

- A.** Harlem sold a piece of land for \$600,000.
- B. Harlem borrowed \$3,000,000
- C. Harlem issued common stock for \$700,000 to investors.
- D. Harlem paid a cash dividend to its stockholders.

66. Which Principle of the AICPA Code of Professional Conduct is: As a member one should continually strive to improve competence, observe all ethical standards and provide services to the best of their ability?

- A. The Public Interest
- B. Responsibilities
- C. Scope and Nature of Services
- D.** Due Care

67. Auditors face ethical issues because

- A. GAAP permits various standards to be used to produce profits
- B.** auditors may express an opinion that may cause difficulty to employees of a company
- C. auditors may not discover insider trading
- D. GAAP does not permit fraud

68. Unethical actions include which of the following?

- A. polluting lakes and streams
- B. overcharging on government contracts
- C. securities fraud
- D.** All of these choices

69. The stated principles of the AICPA Code of Professional Conduct do NOT include

- A. Integrity
- B.** Honesty
- C. Objectivity and Independence
- D. Responsibilities

70. Which of the following is not considered an ethical issue in accounting?

- A. Biased financial statement presentation
- B. Accelerated revenue recognition
- C. Earnings manipulation
- D.** Industry practices

71. The AICPA Code of Professional Conduct includes which of the following principles?

- A. Professionalism
- B. Conservatism
- C. Objectivity
- D. Quality

72. Which Principle of the AICPA Code of Professional Conduct is: A member should be free from conflicts of interest and be objective. A member should be free of bias and provide auditing and attestation services in an independent manner?

- A. Objectivity and Independence
- B. Integrity
- C. Responsibilities
- D. Due Care

73. Which Principle of the AICPA Code of Professional Conduct is: Members should perform all of their professional responsibilities with the highest sense of integrity possible. This ensures trust and public confidence in the profession?

- A. Scope and Nature of Services
- B. Due Care
- C. Integrity
- D. Objectivity and Independence

74. Listed below are several types of pronouncements that the FASB issues. Following the list is a series of descriptive statements.

- a. Statements of Financial Accounting Standards
- b. Interpretations
- c. Technical Bulletins
- d. Statements of Financial Accounting Concepts
- e. Guide for Implementation

- _____ 1. Establishes a theoretical foundation upon which to base financial accounting and reporting standards.
- _____ 2. Provides clarification of conflicting or unclear issues relating to previously issued pronouncements.
- _____ 3. FASB Q's and A's.
- _____ 4. Establishes generally accepted accounting principles.
- _____ 5. Provides guidance on accounting and reporting problems related to an underlying standard.

Required:

Match each pronouncement with its descriptive statement by placing the appropriate letter in the space provided.

1. d
2. b
3. e
4. a
5. c

75. Listed below are the ten steps the FASB goes through in issuing a new Statement.

- | | | |
|-------|----|-----------------------------|
| _____ | a. | Conduct research |
| _____ | b. | Deliberate on findings |
| _____ | c. | Hold public hearings |
| _____ | d. | Identify topic |
| _____ | e. | Issue Discussion Memorandum |
| _____ | f. | Issue Exposure Draft |
| _____ | g. | Issue Statement |
| _____ | h. | Modify Exposure Draft |
| _____ | i. | Vote |

Required:

Indicate the proper sequence of these steps.

- | | | | | | |
|----|---|----|---|----|---|
| a. | 2 | d. | 1 | g. | 9 |
| b. | 5 | e. | 3 | h. | 7 |
| c. | 4 (or 7, and existing 7, 6, & 5 would move up to 6, 5, & 4) | f. | 6 | i. | 8 |

76. Listed below are the Six Principles of AICPA's Code of Professional Conduct.

- a. Responsibilities
- b. Scope and Nature of Services
- c. Due Care
- d. The Public Interest
- e. Objectivity and Independence
- f. Integrity

Required:

Match each principle with its descriptive statement by placing the appropriate letter in the space provided.

_____	1)	A member should be free from conflicts of interest and be objective. A member should be free of bias and provide auditing and attestation services in an independent manner					
_____	2)	A member in public practice should always consider the CPC in determining the nature and scope of services in which they have been asked to provide.					
_____	3)	Members should perform all of their professional responsibilities with the highest sense of integrity possible. This ensures trust and public confidence in the profession.					
_____	4)	In order to always honor the profession members should consider their actions when serving the interests of the public, and act in accordance to maintain public confidence.					
_____	5)	As a member one should continually strive to improve competence, observe all ethical standards and provide services to the best of their ability.					
_____	6)	Members should exercise sensitive professional and moral judgments in all their activities as a responsibility to the profession.					

- 1) E
- 2) B
- 3) F
- 4) D
- 5) C
- 6) A

77. What types of resources do companies compete for and why?

Companies compete for scarce resources that include financial capital, physical and natural resources, intellectual property, technology, the next new product or services. Each company sets out to be successful by securing skilled employees and executives, in order to reach their customers by using a variety of marketing channels. Companies look for the best suppliers that provide resources essential to their businesses.

78. The demand for accounting information arises from the informational needs of various stakeholders.

Required

List five internal stakeholders or external stakeholders.

Internal

- Employees
- Executives

External

- Customers
- Suppliers
- Banks
- Creditors
- Equity investors
- Communities
- Tax Authorities
- Government
- Pension Funds
- Labor Unions

79. What is the mission of the Securities and Exchange Commission? How did the SEC come into being?

The mission of the SEC is to “protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.”

The SEC was created by the Securities Act of 1933 and the Securities Exchange Act of 1934. The SEC has the legal authority over the accounting principles and reporting practices for all corporations that issue public securities within the U.S. capital markets.

80. What is the responsibility of FASB?

FASB is responsible for identifying financial issues, conducting the necessary research to address the issues, and provide a resolution to the issue by issuing a new accounting standard.

81. The FASB Codification consists of six components or levels, what are the components or levels?

- 1) Areas
- 2) Topics
- 3) Subtopics
- 4) Sections
- 5) Subsections
- 6) Paragraphs

82. What are the FASB operating procedures when reviewing whether to issue a new standard?

- 1) Identify a topic
- 2) Appoint a task force
- 3) Conduct research
- 4) Issue Preliminary views or invitations to comment
- 5) Hold public hearings
- 6) Deliberate on findings
- 7) Issue exposure draft
- 8) Hold public hearings
- 9) Modify the exposure draft
- 10) Vote
- 11) Issue an Accounting Standard update

83. The FASB and IASB have some ambitious accounting standards projects to complete prior to their convergence. List five of the projects currently on the agenda.

- 1) consolidated financial statements
- 2) fair value measurement
- 3) financial statement presentation
- 4) leases
- 5) financial instruments
- 6) revenue recognition

84. Define:

- 1) What are assets?
- 2) What are liabilities?
- 3) What is shareholder's equity?
- 4) What financial statement would one find assets, liabilities and shareholder's equity?

- 1) Assets are resources the firm owns that will provide a future economic benefit to the company.
- 2) Liabilities are claims to the resources owned by the firm. These items are obligations owed by the company.
- 3) Shareholder's equity is the residual claim to the resources of the firm. In the event of liquidation this would be whatever is left after the sale of the assets and payment of the liabilities.
- 4) Balance Sheet

85. Define:

- 1) What are revenues?
- 2) What are expenses?
- 3) What is net income?
- 4) What financial statement would one find revenues, expenses, and net income?

- 1) Revenue is the inflow of assets resulting in the selling goods and services to customers.
- 2) Expenses are the outflow of assets resulting in the process of generating revenue.
- 3) Net income is the bottom line or profit. It represents the wealth gained by the company for the shareholders during the period.
- 4) Income Statement

86. What are the six areas covered in the AICPA Code of Professional Conduct?

- 1) Responsibilities
- 2) The Public Interest
- 3) Integrity
- 4) Objectivity and Independence
- 5) Due Care
- 6) Scope and Nature of Services

87. Assume you are tutoring a beginning accounting student who tells you that the members of the FASB must have a great deal of power because they have the authority to issue standards that dictate accounting procedure.

Required:

Explain why accounting standards are the result of compromise and how such compromises are reached.

In order for a new standard to be issued, a majority of at least a four-to-three vote is necessary. In order for such a vote to occur, the members within the board must negotiate with each other to determine which points are important and which are not. In turn, each board member is influenced by the data and opinions collected from the various interest parties^{3/4}prepares, users, and auditors^{3/4}during the multistage process of issuing a standard. This includes discussion memorandums, public hearings, and exposure drafts.

88. Prior to 2009, the FASB issued several types of pronouncements which had differing levels of authority. Explain the differing types of pronouncements, provide a brief explanation as to what changed after 2009 and why is it still important today?

FASB Pronouncements were issued with differing levels of authority. Statements of Financial Accounting Standards had the most authority in regards to specific topics. These pronouncements established the methods and procedures required for specific accounting issues. Interpretations had the next level of authority. The Interpretations provided clarification on unclear or conflicting issues as they related to issued standards. Staff Positions provided more application guidance allowing for limited or narrow revisions of already established standards. After Staff Positions followed Technical bulletins. These were issued due to reporting problems as they related to specific standards. The bulletins provided additional information to clarify, explain, or elaborate as they related to the specific standard. Statements of Financial Accounting Concepts establish the theoretical foundation for financial accounting and reporting standards. Other pronouncements are in the form of question and answers.

Prior to 2009 these pronouncements were hard to follow, numerous to say the least, and many times conflicting. In 2009 FASB introduced the FASB Accounting Standards Codification which housed the over 2,000 standards in one place of reference.

The hierarchy of pronouncements are important today because they are still referenced in accounting literature and as justification for companies to explain their interpretation of GAAP.

89. The SEC has several reporting choices. It can require that U.S. companies use U.S. GAAP in their financial statement filings. Alternatively, the SEC can require or allow U.S. companies to use IFRS in their financial statement filings. Many issues and complexities surround the use of IFRS.

Required:

Identify and discuss three of the potential problems to be considered by the SEC in deliberating this proposal.

Note: Six issues are discussed below. Three should be selected and discussed.

1. Many U.S. companies (particularly smaller ones) filing with the SEC do not operate globally, so they would not see any advantage to using IFRS. If IFRS were required, it would likely be very costly for them to switch from U.S. GAAP to IFRS, thereby affecting their profitability during the conversion period.
2. If IFRS were allowed rather than required and some regulated companies did not switch to IFRS, then there would be differences in the financial statements of regulated companies that used U.S. GAAP and those that used IFRS. These differences potentially affect the ability of investors and creditors in comparing companies.
3. Most U.S. corporations are small companies and do not issue publicly traded securities and therefore are not regulated by the SEC. These corporations These corporation would likely continue to use U.S. GAAP in preparing their financial statements. A switch to IFRS for regulated U.S. companies would create a "dual-GAAP" system in the United States.
4. Accountants, auditors, and financial statement users would have to be trained to understand the impact of IFRS on the preparation of financial statements of companies using IFRS.
5. If U.S. companies have subsidiaries operating in foreign countries, they may be required to prepare their subsidiaries' financial statements according to IFRS for local filings and still have to prepare their financial statements using U.S. GAAP to file with the SEC, which creates costly inefficiencies.
6. Many companies have entered into contracts based on U. S. GAAP. (For example, companies may have borrowed money with "debt covenants" based on U.S. GAAP that restrict their financing activities.) A shift to IFRS may require renegotiating these contracts.

90. Your accounting instructor allows you to look at his grade book in order to verify the points you have received to date in the final course taken by all accounting majors. While looking at your points, you notice that your best friend's score on the last exam was recorded incorrectly. He received a 68 on the test but it has been recorded as an 86 in the grade book. Your friend needs a passing grade in this class in order to graduate. If the correct score is recorded, he might not have enough points to pass the course.

Required:

Discuss the steps you should take to deal with this ethical dilemma using three ethical criteria. You need not indicate the ethical action you would take.

Students may answer in a variety of ways, however, their answers should include the following steps: (1) identifying the stakeholders (the student, the friend, and the instructor) and the student's responsibilities (to him/herself, the friend, and the instructor); (2) discussion of the three ethical criteria, (a) utility: what action would be optimal for all stakeholders?, (b) rights: what action respects the rights of all the stakeholders?, (c) justice: what action is fair and just?; (3) identifying any "overwhelming factors" that might justify disregarding one or more of the three ethical criteria; and (4) deciding if the action to be taken is ethical.