

Chapter 01

Accounting: The Language of Business

True / False Questions

1. The purpose of accounting is to provide financial information about an economic or social entity.

True False

2. An accounting system is designed to accumulate and classify data about a firm's financial affairs and summarize it in the general journal.

True False

3. In a sole proprietorship, the owner is responsible for the debts of the business if the firm is unable to pay.

True False

4. Laws passed by Congress in 1933 and 1934 gave the Securities and Exchange Commission (SEC) final say on matters of financial reporting by publicly owned corporations.

True False

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

True False

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

True False

7. Public accounting firms provide three major types of services: auditing, tax accounting, and management advisory services.

True False

8. The financial statements and the auditor's report must be made available to stockholders of publicly owned corporations.

True False

9. Anyone can invest in a closely held corporation.

True False

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

True False

11. The separate entity assumption applies only to the corporate form of business.

True False

12. As the first step in the development of generally accepted accounting principles, the FASB writes an exposure draft, which explains the topic under consideration.

True False

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

True False

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

True False

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

True False

16. Accounting is defined as the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties.

True False

17. The owners and managers of a business are the only users of the financial information.

True False

18. Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.

True False

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

True False

20. 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

21. A business partnership can have only two partners.

True False

Fill in the Blank Questions

22. Accounting is often referred to as the language of _____.

23. The results of the accounting process are summarized in periodic reports called financial _____.

_____.

24. Financial information users such as owners, managers and employees, are referred to as _____ users.

25. The three major legal forms of business entity are the sole proprietorship, the partnership, and the _____.

26. A partnership has _____ or more owners.

27. Ownership in a corporation is evidenced by shares of _____.

28. The Securities and Exchange Commission (SEC) regulates the accounting methods and financial reporting of _____ owned corporations.

29. The financial statements submitted to the SEC by a corporation must be _____ by an independent accountant to ensure their fairness and adherence to generally accepted accounting principles.

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

31. A form of business entity owned by one person is called a(n) _____.

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

_____.

33. 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

_____.

34. Tax accounting is a service offered by public accounting firms that involves tax

_____ and tax planning.

35. Generally accepted accounting _____ are financial accounting standards that are changed and refined in response to changes in the environment in which businesses operate.

36. The owners of a corporation are called _____.

Multiple Choice Questions

37. Which of the following is NOT an area in which accountants usually practice?

- A. Public Accounting
- B. Industrial Accounting
- C. Governmental Accounting
- D. Managerial (Private) Accounting

38. Managerial accountants usually do which of the following?

- A. audit financial statements
- B. prepare tax returns and audit the returns
- C. establish accounting policies
- D. investigate companies for possible violations of law

39. Identify which of the following are considered OUTSIDE users of financial accounting information.

- A. employees
- B. managers
- C. owners
- D. banks

40. An example of an economic entity is

- A. a town.
- B. a business.
- C. a politician.
- D. a church.

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

- A. the sole proprietorship.
- B. the partnership.
- C. the corporation.
- D. the nonprofit organization.

42. Which of the following is NOT a type of information communicated by the financial statements?

- A. whether or not the business is profitable
- B. what types of assets business owns
- C. how long the business has been in operation
- D. how much the business owes others

43. Which of the following is NOT a type of information communicated by the financial statements?

- A. the equity, or value, of the business
- B. the amount spent on costs (expenses) of the business
- C. the types of products and services the business provides
- D. the amount of revenue earned by the business

44. The Financial Accounting Standards Board is responsible for

- A. auditing financial statements.
- B. developing generally accepted accounting principles.
- C. establishing accounting systems for businesses.
- D. making recommendations to the Securities and Exchange Commission.

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

- A. the Securities and Exchange Commission.
- B. the Federal Trade Commission.
- C. the Internal Revenue Service.
- D. the Financial Accounting Standards Board.

46. The financial affairs of a business and the financial affairs of the owners should be
- A. combined in the firm's accounting records.
 - B. reported in different parts of the firm's accounting records.
 - C. combined only if the owner wants them to be.
 - D. kept totally separate.
47. All financial statements submitted to the SEC by publicly owned corporations must include an auditor's report prepared by
- A. an internal auditor.
 - B. the firm's managerial accountant.
 - C. an independent certified public accountant.
 - D. anyone in the accounting department.
48. The area of accounting that involves the preparation of internal reports for a firm's executives and the analysis of the data in these reports to aid in decision making is known as
- A. financial accounting.
 - B. managerial accounting.
 - C. auditing.
 - D. cost accounting.

49. The corporations whose stock can be bought and sold on stock exchanges and in over-the-counter markets are referred to as
- A. privately owned corporations.
 - B. closely held corporations.
 - C. publicly owned corporations.
 - D. sole proprietorships.
50. The group of accounting educators who offer their opinions about proposed FASB statements, after research has been done to determine the possible effects on financial reporting and the economy, is
- A. the FCC.
 - B. the AICPA.
 - C. the SEC.
 - D. the AAA.
51. Owners are not personally responsible for the debts of the business if the form of business organization is
- A. the sole proprietorship.
 - B. the partnership.
 - C. the corporation.
 - D. the nonprofit organization.

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

- A. a sole proprietorship
- B. a corporation
- C. a limited liability partnership
- D. a partnership

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

- A. owners avoid double taxation and owners have limited liability
- B. treated as a separate legal entity and owners avoid double taxation
- C. owners have limited liability and corporation's earnings are tax free
- D. owner is personally responsible for debts of the business and earnings are reported directly on owner's personal tax return

54. A firm issues periodic reports called

- A. financial statements.
- B. summaries.
- C. tax returns.
- D. audits.

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

- A. recording
- B. identifying
- C. communicating
- D. classifying

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

- A. The IASB deals with issues caused by the lack of uniform accounting principles existing in different countries
- B. The IASB was created by the American Accounting Association
- C. The IASB develops all accounting principles to be used in the United States
- D. The IASB has the authority to audit financial statements of all US corporations

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

- A. auditing
- B. tax accounting
- C. management advisory services
- D. investment services

58. Tax accounting involves tax compliance and

- A. tax evaluation.
- B. tax planning.
- C. tax configuration.
- D. tax obfuscation.

59. Tax planning includes

- A. preparing tax returns.
- B. auditing tax returns.
- C. correcting tax returns.
- D. suggesting actions to reduce tax liability.

60. Managerial accounting is

- A. public accounting.
- B. government accounting.
- C. private accounting.
- D. tax accounting.

61. The following are all government agencies **except**

- A. SEC.
- B. AICPA.
- C. IRS.
- D. FBI.

62. An act passed in response to the wave of corporate accounting scandals is the

- A. Saxon-Ordanly Act.
- B. Sarbanes-Oxley Act.
- C. Sardonic-Oxone Act.
- D. Sorbine-Oxide Act.

63. Owners and managers need financial information in order to

- A. grant loans.
- B. issue credit.
- C. collect taxes.
- D. make decisions.

64. The Sarbanes-Oxley Act includes rules on

- A. auditor retention.
- B. auditor reliability.
- C. auditor rotation.
- D. auditor reporting.

65. A form of the partnerships business entity is

- A. LLP.
- B. LLC.
- C. INP.
- D. DBA.

66. Identify the statement below that represents what GAAP stands for

- A. Generally Accepted Accounting Principles.
- B. Generally Accepted Auditing Practices.
- C. General Accounting Actuary Principles.
- D. Generally Approved Accounting Practices.

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

- A. accounting.
- B. preparation.
- C. compliance.
- D. auditing.

68. Management advisory services are designed to help

- A. government agencies.
- B. clients.
- C. employers.
- D. creditors.

69. An independent accountant who provides accounting services to the public for a fee is a

- A. CIA.
- B. CFE.
- C. CMA.
- D. CPA.

70. 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.

- A. steps include: publishing a notice in the newspaper, seeking public opinion, and issuing a statement of principle.
- B. steps include: issuing a discussion memorandum, filing a legal draft, and notifying the SEC.
- C. steps include: filing a complaint with the SEC, issuing an internal report, and issuing a statement of principle.
- D. steps include: issuing a discussion memorandum, issuing an exposure draft, and issuing a statement of principle.

Short Answer Questions

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

72. Cullen Company of country X and Shaw 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 beginning. 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?

73. You have just entered college and decide to pursue a career as an accountant. What are the three areas in which an accountant can practice?

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

75. List at least five activities performed by managerial accountants.

76. Define the following terms: entity, economic entity, and social entity.

77. How do sole proprietorships, partnerships, and corporations differ?

78. 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.

79. List the "Big Four" public accounting firms in the United States.

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

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

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

Chapter 01 Accounting: The Language of Business **Answer Key**

True / False Questions

1. The purpose of accounting is to provide financial information about an economic or social entity.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

2. An accounting system is designed to accumulate and classify data about a firm's financial affairs and summarize it in the general journal.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

3. In a sole proprietorship, the owner is responsible for the debts of the business if the firm is unable to pay.

TRUE

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: Business Entities

4. Laws passed by Congress in 1933 and 1934 gave the Securities and Exchange Commission (SEC) final say on matters of financial reporting by publicly owned corporations.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Identify the users of financial information.

Topic: What is Accounting?

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

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

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

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

7. Public accounting firms provide three major types of services: auditing, tax accounting, and management advisory services.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

8. The financial statements and the auditor's report must be made available to stockholders of publicly owned corporations.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

9. Anyone can invest in a closely held corporation.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Accounting Standards

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

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

11. The separate entity assumption applies only to the corporate form of business.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: Accounting Standards

12. As the first step in the development of generally accepted accounting principles, the FASB writes an exposure draft, which explains the topic under consideration.

FALSE

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

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

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

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

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

AICPA FN: Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Identify the users of financial information.

Topic: What is Accounting?

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

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

16. Accounting is defined as the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

17. The owners and managers of a business are the only users of the financial information.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: What is Accounting?

18. Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

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

TRUE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

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

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

21. A business partnership can have only two partners.

FALSE

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

Fill in the Blank Questions

22. Accounting is often referred to as the language of _____.

business

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

23. The results of the accounting process are summarized in periodic reports called financial _____.

statements

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

24. Financial information users such as owners, managers and employees, are referred to as _____ users.

inside or internal

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: Users of Accounting

25. The three major legal forms of business entity are the sole proprietorship, the partnership, and the _____.

corporation

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

26. A partnership has _____ or more owners.

two

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

27. Ownership in a corporation is evidenced by shares of _____.

stock

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

28. The Securities and Exchange Commission (SEC) regulates the accounting methods and financial reporting of _____ owned corporations.

publicly

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: Accounting Standards

29. The financial statements submitted to the SEC by a corporation must be _____ by an independent accountant to ensure their fairness and adherence to generally accepted accounting principles.

audited

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

AICPA FN: Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

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

governmental

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

31. A form of business entity owned by one person is called a(n) _____.

sole proprietorship

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: Business Entities

32. The people, companies, or government agencies to whom a firm owes money are called _____.

creditors

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business and Accounting

33. 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

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

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Topic: What is Accounting?

34. Tax accounting is a service offered by public accounting firms that involves tax _____ and tax planning.

compliance

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

35. Generally accepted accounting _____ are financial accounting standards that are changed and refined in response to changes in the environment in which businesses operate.

principles

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

36. The owners of a corporation are called _____.

stockholders or shareholders

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

Multiple Choice Questions

37. Which of the following is NOT an area in which accountants usually practice?

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38. Managerial accountants usually do which of the following?

- A. audit financial statements
- B. prepare tax returns and audit the returns
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Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

39. Identify which of the following are considered OUTSIDE users of financial accounting information.

- A. employees
- B. managers
- C. owners
- D. banks

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: Users of Financial Information

40. An example of an economic entity is

- A. a town.
- B. a business.
- C. a politician.
- D. a church.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

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

- A. the sole proprietorship.
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AACSB: Analytic

AICPA BB: Industry

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Topic: Business Entities

42. Which of the following is NOT a type of information communicated by the financial statements?

- A. whether or not the business is profitable
- B. what types of assets business owns
- C. how long the business has been in operation
- D. how much the business owes others

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

43. Which of the following is NOT a type of information communicated by the financial statements?

- A. the equity, or value, of the business
- B. the amount spent on costs (expenses) of the business
- C. the types of products and services the business provides
- D. the amount of revenue earned by the business

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

44. The Financial Accounting Standards Board is responsible for

- A. auditing financial statements.
- B. developing generally accepted accounting principles.
- C. establishing accounting systems for businesses.
- D. making recommendations to the Securities and Exchange Commission.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

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

- A. the Securities and Exchange Commission.
- B. the Federal Trade Commission.
- C. the Internal Revenue Service.
- D. the Financial Accounting Standards Board.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

46. The financial affairs of a business and the financial affairs of the owners should be

- A. combined in the firm's accounting records.
- B. reported in different parts of the firm's accounting records.
- C. combined only if the owner wants them to be.
- D. kept totally separate.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Accounting Standards

47. All financial statements submitted to the SEC by publicly owned corporations must include an auditor's report prepared by
- A. an internal auditor.
 - B. the firm's managerial accountant.
 - C. an independent certified public accountant.
 - D. anyone in the accounting department.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

48. The area of accounting that involves the preparation of internal reports for a firm's executives and the analysis of the data in these reports to aid in decision making is known as
- A. financial accounting.
 - B. managerial accounting.
 - C. auditing.
 - D. cost accounting.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

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

- A. privately owned corporations.
- B. closely held corporations.
- C. publicly owned corporations.
- D. sole proprietorships.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

50. The group of accounting educators who offer their opinions about proposed FASB statements, after research has been done to determine the possible effects on financial reporting and the economy, is

- A. the FCC.
- B. the AICPA.
- C. the SEC.
- D. the AAA.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: What is Accounting?

51. Owners are not personally responsible for the debts of the business if the form of business organization is

- A. the sole proprietorship.
- B. the partnership.
- C. the corporation.**
- D. the nonprofit organization.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

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

- A. a sole proprietorship
- B. a corporation**
- C. a limited liability partnership
- D. a partnership

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

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

- A. owners avoid double taxation and owners have limited liability
- B. treated as a separate legal entity and owners avoid double taxation
- C. owners have limited liability and corporation's earnings are tax free
- D. owner is personally responsible for debts of the business and earnings are reported directly on owner's personal tax return

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

54. A firm issues periodic reports called

- A. financial statements.
- B. summaries.
- C. tax returns.
- D. audits.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

AICPA FN: Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Topic: What is Accounting?

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

- A. recording
- B. identifying
- C. communicating
- D. classifying

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

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

- A. The IASB deals with issues caused by the lack of uniform accounting principles existing in different countries
- B. The IASB was created by the American Accounting Association
- C. The IASB develops all accounting principles to be used in the United States
- D. The IASB has the authority to audit financial statements of all US corporations

AACSB: Analytic

AICPA BB: Global

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Accounting Standards

Topic: What is Accounting?

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

- A. auditing
- B. tax accounting
- C. management advisory services
- D. investment services

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

58. Tax accounting involves tax compliance and

- A. tax evaluation.
- B. tax planning.**
- C. tax configuration.
- D. tax obfuscation.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

59. Tax planning includes

- A. preparing tax returns.
- B. auditing tax returns.
- C. correcting tax returns.
- D. suggesting actions to reduce tax liability.**

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

60. Managerial accounting is

- A. public accounting.
- B. government accounting.
- C. private accounting.
- D. tax accounting.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

61. The following are all government agencies **except**

- A. SEC.
- B. AICPA.
- C. IRS.
- D. FBI.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

62. An act passed in response to the wave of corporate accounting scandals is the

- A. Saxon-Ordanly Act.
- B. Sarbanes-Oxley Act.**
- C. Sardonic-Oxone Act.
- D. Sorbine-Oxide Act.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Identify the users of financial information.

Topic: Accounting Standards

63. Owners and managers need financial information in order to

- A. grant loans.
- B. issue credit.
- C. collect taxes.
- D. make decisions.**

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: What is Accounting?

64. The Sarbanes-Oxley Act includes rules on

- A. auditor retention.
- B. auditor reliability.
- C. auditor rotation.
- D. auditor reporting.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Identify the users of financial information.

Topic: Accounting Standards

65. A form of the partnerships business entity is

- A. LLP.
- B. LLC.
- C. INP.
- D. DBA.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Business Entities

66. Identify the statement below that represents what GAAP stands for

- A. Generally Accepted Accounting Principles.
- B. Generally Accepted Auditing Practices.
- C. General Accounting Actuary Principles.
- D. Generally Approved Accounting Practices.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Topic: Accounting Standards

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

- A. accounting.
- B. preparation.
- C. compliance.
- D. auditing.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

68. Management advisory services are designed to help

- A. government agencies.
- B.** clients.
- C. employers.
- D. creditors.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

69. An independent accountant who provides accounting services to the public for a fee is a

- A. CIA.
- B. CFE.
- C. CMA.
- D.** CPA.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: What is Accounting?

70. 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.
- A. steps include: publishing a notice in the newspaper, seeking public opinion, and issuing a statement of principle.
 - B. steps include: issuing a discussion memorandum, filing a legal draft, and notifying the SEC.
 - C. steps include: filing a complaint with the SEC, issuing an internal report, and issuing a statement of principle.
 - D. steps include: issuing a discussion memorandum, issuing an exposure draft, and issuing a statement of principle.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

Short Answer Questions

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

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.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-01 Define accounting.

Learning Objective: 01-03 Identify the users of financial information.

Topic: What is Accounting?

72. Cullen Company of country X and Shaw 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 beginning. 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?

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.

AACSB: Analytic

AICPA BB: Global

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Business and Accounting

73. You have just entered college and decide to pursue a career as an accountant. What are the three areas in which an accountant can practice?

public accounting, managerial (private) accounting, and governmental accounting

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

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

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, and 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.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

75. List at least five activities performed by managerial accountants.

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.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

76. Define the following terms: entity, economic entity, and social entity.

Entity-recognized as having its own separate identity. Social entity-nonprofit organizations.
Economic entity-business or organization whose major purpose is to produce a profit.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: Business Entities

77. How do sole proprietorships, partnerships, and corporations differ?

Sole proprietorships-business entities owned by one person who is responsible for the business debts and taxes. The business ends when the owner dies. 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.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 01-04 Compare and contrast the three types of business entities.

Learning Objective: 01-06 Define the accounting terms new to this chapter.

Topic: Business Entities

78. 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.

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 service on purchases will continue into the future. Employees and unions-to negotiate wages and benefits.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-03 Identify the users of financial information.

Topic: Users of Accounting Information

Topic: What is Accounting?

79. List the "Big Four" public accounting firms in the United States.

Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: What is Accounting?

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

It contains the auditor's opinion regarding the fairness of the firm's financial statements and confirms the adherence to GAAP in those financial reports.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards

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

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 five 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.

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-02 Identify and discuss career opportunities in accounting.

Topic: Accounting Standards

Topic: What is Accounting?

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

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

AACSB: Analytic

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

Blooms: Analyze

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the process used to develop generally accepted accounting principles.

Topic: Accounting Standards