

Chapter 1—Introduction to financial accounting

MULTIPLE CHOICE

1. A financial statement:
- A. summarises the measurements of financial performance and financial position
 - B. summarises the cash position of a business entity
 - C. analyses the financial performance of a business entity
 - D. analyses the business's ability to meet its financial obligations.

ANS: A PTS: 1 DIF: Easy TOP: Financial accounting

2. Financial statements provide useful information for shareholders to:
- A. understand day-to-day activities
 - B. decide whether to buy, sell or hold shares of companies
 - C. decide whether to lend money to the business entity
 - D. create business planning strategies.

ANS: B PTS: 1 DIF: Moderate TOP: Who uses financial accounting information?

3. Which of the following organisations may not find the financial statements useful?
- A. Australian Taxation Office
 - B. a church congregation
 - C. a university
 - D. all of the above.

ANS: D PTS: 1 DIF: Moderate TOP: Who uses financial accounting information?

4. Financial performance means:
- A. providing information about the cash position of an entity
 - B. setting out the enterprise's set of financial resources and obligations at a point in time
 - C. identifying, measuring and communicating economic information to allow informed decisions
 - D. generating new resources for day-to-day operations over a period of time.

ANS: D PTS: 1 DIF: Moderate TOP: Financial accounting

5. Which of the following statements is NOT true?
- A. Judgements need to be made in determining profit.
 - B. Attempts are made to measure incomplete transactions.
 - C. The impact of transactions is recognised when cash is received or paid.
 - D. Estimates are made of certain balance sheet items.

ANS: C PTS: 1 DIF: Difficult TOP: Accrual accounting

6. Which of the following statements about financial accounting is NOT true?
- A. A marketing manager does not need to be concerned with financial accounting.
 - B. The financial accountant faces a challenge in figuring out which numbers to use.
 - C. Adding and subtracting is often the easy part of financial accounting.
 - D. Significant judgement is required in accounting.

ANS: A PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

7. Which of the following statements about financial accounting is NOT true?
- A. Financial accounting helps banks decide whether or not to lend.
 - B. Financial accounting helps stock market investors decide whether to buy company shares.
 - C. Financial accounting reports on the performance of managers as decision-makers.
 - D. Employees assess whether the company can repay long-term debt.

ANS: D PTS: 1 DIF: Easy TOP: The people involved in financial accounting

8. A user's main demand is for credible periodic reporting of an enterprise's financial position and performance. Credible means:
- A. 100% accurate
 - B. easily understandable by users of financial statements
 - C. sufficiently trustworthy and competently prepared for it to be used to make decisions
 - D. relevant to the needs of decision-makers.

ANS: C PTS: 1 DIF: Easy TOP: The people involved in financial accounting

9. Which type of information would be of most interest to trade creditors?
- A. dividends declared
 - B. ability to pay debts
 - C. pollution of waterways adjacent to the firm's factory
 - D. continuity of orders for the firm's products.

ANS: B PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

10. Which type of information would be of most interest to shareholders?
- A. profitability
 - B. long-term financial stability
 - C. pollution of waterways adjacent to the firm's factory
 - D. continuity of orders for the firm's products.

ANS: A PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

11. Which type of information would be of least interest to employees?
- A. proposed expansion of the business
 - B. long-term financial stability
 - C. dividends declared
 - D. profitability.

ANS: D PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

12. The holders of bonds maturing in 15 years' time would be most interested in which type of information?
- A. proposed expansion of the business
 - B. long-term financial stability
 - C. liquidity
 - D. profitability.

ANS: B PTS: 1 DIF: Difficult TOP: The people involved in financial accounting

13. Which of the following statements about external company auditors is NOT true?
- A. External company auditors provide assurance that the financial statements audited by them contain no mistakes.
 - B. External company auditors cannot credibly audit statements they have prepared.
 - C. External company auditors must be independent.
 - D. All of the above statements are true.

ANS: A PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

14. Which of the following statements about auditing is NOT true?
- A. Auditing arose because users demanded some assurance that managers' reports on their performance were reliable.
 - B. Auditors verify that the accounts have been prepared accurately.
 - C. The auditing function is usually restricted to members of recognised professional accounting bodies.
 - D. When professional accountants prepare financial statements, they are acting as auditors.

ANS: D PTS: 1 DIF: Moderate TOP: The people involved in financial accounting

15. Which of the following statements about accrual accounting is NOT true?
- A. The impact of transactions on the financial statements is recognised when the cash is received or paid.
 - B. The financial statements include estimates.
 - C. Judgements made by accountants affect profit.
 - D. Transactions are recognised at the time when revenue and expenses occur.

ANS: A PTS: 1 DIF: Moderate TOP: Accrual accounting

16. Does measuring economic performance involve: (i) estimates; (ii) adjustments; and/or (iii) judgements?
- A. (i) and (ii) only
 - B. (i) and (iii) only
 - C. (ii) and (iii) only
 - D. (i), (ii) and (iii).

ANS: D PTS: 1 DIF: Difficult TOP: Accrual accounting

Use the information given below to answer the following 2 questions.

During 2012, a company makes credit sales of \$600 000, of which \$350 000 is collected at year-end. It pays \$220 000 in expenses and owes \$20 000 for electricity used during 2012.

17. Profit according to accrual accounting is:
- A. \$130 000
 - B. \$380 000
 - C. \$360 000
 - D. \$710 000.

ANS: C PTS: 1 DIF: Moderate TOP: Accrual accounting

18. What would the profit be if cash accounting rather than accrual accounting were used?
- A. \$130 000
 - B. \$110 000
 - C. \$380 000
 - D. \$730 000.

ANS: A PTS: 1 DIF: Moderate TOP: Accrual accounting

Use the information given below to answer the following 2 questions.

	\$
Cash sales	20 000
Credit sales	60 000
Cash received from accounts receivable	42 000
Wages paid	10 000
Wages owing at year-end	8000

19. What is the net profit for 2012?
- A. \$70 000
 - B. \$62 000
 - C. \$104 000
 - D. \$112 000.

ANS: B PTS: 1 DIF: Moderate TOP: The key financial statements

20. What is the cash flow from operations for 2012?
- A. \$52 000
 - B. \$62 000
 - C. \$70 000
 - D. \$104 000.

ANS: A PTS: 1 DIF: Moderate TOP: The key financial statements

21. Use the information given below to answer the following 3 questions.

LPR is a company that commenced business on 1 January 2012. Below are the balances in the 30 June 2012 financial statements.

	\$
Cash	2000
Share capital	12 000
Accounts receivable	6000
Accounts payable	4000
Loan payable	14 000
Land	20 000
Inventory	4000
Cost of goods sold	3000
Wages expense	5000
Sales	10 000

What is the balance of assets?

- A. \$44 000

- B. \$28 000
- C. \$34 000
- D. \$32 000.

ANS: D PTS: 1 DIF: Moderate TOP: The key financial statements

22. What is the balance of liabilities?

- A. \$18 000
- B. \$30 000
- C. \$20 000
- D. \$21 000.

ANS: A PTS: 1 DIF: Moderate TOP: The key financial statements

23. What is the net profit for the period ending 30 June 2012?

- A. \$7000
- B. \$2000
- C. \$4000
- D. \$2000.

ANS: A PTS: 1 DIF: Moderate TOP: The key financial statements

24. Which of the following is NOT shown in the heading of the balance sheet?

- A. the name of the enterprise
- B. the title of the report
- C. the period covered by the report
- D. all of the above are shown in the heading.

ANS: C PTS: 1 DIF: Moderate TOP: The key financial statements

25. Which of the following is NOT a main element in the balance sheet?

- A. assets
- B. profit
- C. shareholders' equity
- D. liabilities.

ANS: B PTS: 1 DIF: Easy TOP: The key financial statements

26. Which of the following is NOT an asset?

- A. marketable securities
- B. accounts receivable
- C. provisions for employee entitlements
- D. inventory.

ANS: C PTS: 1 DIF: Easy TOP: The key financial statements

27. Which of the following may be an asset of a business enterprise?

- A. retained profits

33. Assets are initially recorded at cost. What assumption/concept underlies this procedure?

- A. accounting entity
- B. monetary
- C. historical cost
- D. going concern.

ANS: C

PTS: 1

DIF: Easy

TOP: Financial statement assumptions

34. A company's assets are differentiated from the senior manager's. What assumption/concept underlies this procedure?

- A. accounting entity
- B. monetary
- C. historical cost
- D. going concern.

ANS: A

PTS: 1

DIF: Moderate

TOP: Financial statement assumptions

35. Financial statements are prepared on the premise that the organisation will continue operations in the foreseeable future. To which financial statement assumption does this relate?

- A. accounting entity
- B. monetary
- C. historical cost
- D. going concern.

ANS: D

PTS: 1

DIF: Moderate

TOP: Financial statement assumptions

36. Using the Australian dollar to measure accounting transactions allows comparisons across periods. To which financial statement assumption does this relate?

- A. accounting entity
- B. monetary
- C. historical cost
- D. going concern.

ANS: B

PTS: 1

DIF: Easy

TOP: Financial statement assumptions

37. The life of a business is divided into equal periods to determine profit or loss for that period. What assumption/concept underlies this procedure?

- A. materiality
- B. monetary
- C. accounting period
- D. accounting entity.

ANS: C

PTS: 1

DIF: Easy

TOP: Financial statement assumptions

38. A stapling machine, costing \$25 with a useful life of 5 years, is treated as a stationery expense rather than as an asset. To what financial statement assumption does this relate?

- A. materiality
- B. monetary
- C. accounting period
- D. accounting entity.

ANS: A PTS: 1 DIF: Difficult TOP: Financial statement assumptions.

39. The owner withdraws inventory for his own use from the business. To which financial statement assumption does this relate?
- A. materiality
 - B. monetary
 - C. accounting period
 - D. accounting entity.

ANS: D PTS: 1 DIF: Difficult TOP: Financial statement assumptions

40. Which financial statement assumption relates to the procedure where a \$200 paper shredder with a 5-year useful life is treated as an expense?
- A. monetary
 - B. accounting period
 - C. materiality
 - D. historical cost.

ANS: C PTS: 1 DIF: Difficult TOP: Financial statement assumption

41. The owner of a corner store keeps separate private and business transactions. To which financial statement assumption does this relate?
- A. materiality
 - B. accounting entity
 - C. accounting period
 - D. going concern.

ANS: B PTS: 1 DIF: Moderate TOP: Financial statement assumptions